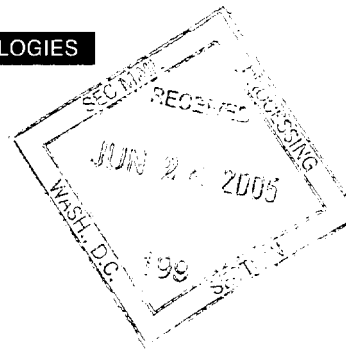
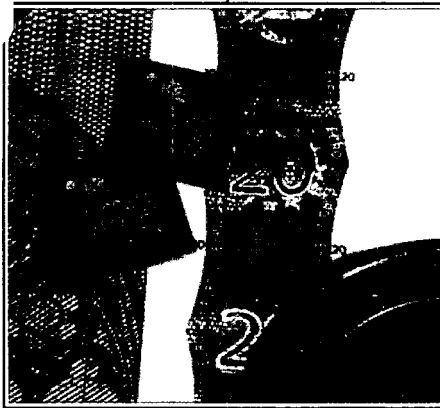


DIGITAL WIRELESS TECHNOLOGIES

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**Micro Linear**

ANNUAL REPORT 2005



## TO OUR STOCKHOLDERS

I am pleased to report that we recognized significant improvements in virtually every aspect of our business in 2004. We continued our focus and commitment to the expanding wireless market and are now positioned to benefit greatly as customers around the world embrace exciting new wireless products. Our decision to invest in world-class designers, highly efficient tools and advanced process technologies has proven to be a winning strategy, allowing us to address emerging markets and execute complex highly integrated designs.

In 2004, Micro Linear was the first company to offer new and innovative 5.8GHz wireless transceivers, which continue to ship in high volumes today. Though we are currently ahead of the competition in this market space, we are already developing next generation

***"There are no great limits to growth because there are no limits of human intelligence, imagination, and wonder."***

**Ronald Reagan  
(1911-2004)**

5.8GHz products, which will offer higher integration and better performance. With the planned introduction of these new products in 2005, we fully expect that we will remain a dominant player in the growing 5.8GHz market.

During the past year, we also introduced what we believe is the most optimized wireless transceiver for the growing Personal Handyphone System (PHS) marketplace. Micro Linear's strength in offering low cost, highly integrated solutions is well suited for this market. Our first PHS transceiver, the ML1900, has caught the attention of several major handset suppliers, as it offers significant improvements in component count and cost. We began shipping the ML1900 in production volumes during the second quarter of 2005.

Recognizing that PHS represents a significant market opportunity for Micro Linear, we are currently developing our second-generation PHS transceiver, the ML1905. With these two PHS devices, we believe we can interface with virtually every PHS baseband processor on the market today and even some PHS basebands which are currently being developed by major manufacturers. Our continued development efforts should allow Micro Linear to remain a leading provider to this rapidly expanding market.

Micro Linear is committed to supporting the varied wireless markets in which the company participates today, including: cordless phones, PHS (cellular phones), streaming audio, streaming video, security systems, baby monitors, commercial headsets, and video game controllers. These markets should continue to provide growing opportunities to Micro Linear for many years to come. Given our success in these markets, we are confident that we can draw on our strong customer relationships and market presence, superior technology and integration capability, and our world-class operations and customer support groups, to successfully compete in other exciting new markets.

We greatly appreciate the steadfast support of our employees and stockholders as we leverage our expertise to address the challenges and opportunities that lie ahead.

Sincerely,

Timothy A. Richardson  
President and Chief Executive Officer

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**  
**Washington, D.C. 20549**

**Form 10-K**

(Mark One)

- ☒ **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the Fiscal Year Ended January 2, 2005**

**or**

- ☐ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d)  
OF THE SECURITIES EXCHANGE ACT OF 1934**

**For the transition period from** \_\_\_\_\_ **to** \_\_\_\_\_

**Commission file number 0-24758**

**Micro Linear Corporation**

*(Exact name of Registrant as specified in its charter)*

**Delaware**

*(State or other jurisdiction of  
incorporation or organization)*

**2050 Concourse Drive  
San Jose, California**

*(Address of principal executive offices)*

**94-2910085**

*(I.R.S. Employer  
Identification Number)*

**95131**

*(Zip Code)*

**Registrant's telephone number, including area code:**

**(408) 433-5200**

**Securities registered pursuant to Section 12(b) of the Act:**

**None**

**Securities registered pursuant to Section 12(g) of the Act:**

**Common Stock, \$.001 par value per share**

**Series A Participating Preferred Stock, \$.001 par value per share**

*(Title of Class)*

Indicate by check mark whether the Registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

The aggregate market value of the Common Stock held by non-affiliates of the Company, as of June 25, 2004 (the last business day of the registrant's most recently completed second fiscal quarter, based upon the closing price of \$5.74 per share on the Nasdaq National Market on such date), was approximately \$52,989,068. Shares of Common Stock held by each executive officer and director and shares held by each holder of more than 5% of the common stock known to the registrant (based on Schedule 13G filings), have been excluded, in that such persons may under certain circumstances be deemed to be affiliates. This determination of executive officer or affiliate status is not necessarily a conclusive determination for other purposes.

The number of shares of the Registrant's Common Stock outstanding as of March 1, 2005, net of shares held in treasury, was 12,461,973.

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## FORWARD LOOKING STATEMENTS

*When used in this Report, the words "expects", "anticipates", "estimates", "believes", "plans", "designed to," "allows," "can," "intend," "will," and similar expressions are intended to identify forward-looking statements. These are statements that relate to future periods, and include statements regarding the growth of markets for our digital wireless solutions, types of radios and basebands, our objective to become a leading provider of digital wireless solutions for many large global markets, our strategic initiatives to achieve that objective, including our focus on becoming a major provider of wireless semiconductors in the ISM and PCS bands, developing products based on existing intellectual property, developing customer partnerships and major strategic relationships in our target markets, increasing the number of customers and design wins by applying our digital wireless expertise to markets and applications other than digital cordless telephones, developing evaluation tools and reference designs to enable companies to quickly and efficiently implement wireless connectivity in their products using our wireless integrated circuits, using our high volume manufacturing and testing expertise to deliver cost effective products with rapid time to market and the anticipated benefits of these initiatives, our beliefs that the market for wireless consumer electronics, communications and industrial products is one of the most promising potential growth segments of the wireless semiconductor industry, the features and benefits and market acceptance of our products and technology, including our transceivers, our production-ready reference designs, silicon media conversion devices for Ethernet networks and application-specific radio solutions, the sources of our future revenue and concentration of customers, the competitive advantages of our core technologies, the advantages of our use of outside foundries, our intent to spend significant resources on new product and technology development, including wireless semiconductors in the three major ISM bands, our intent to broaden our markets into streaming applications, leverage our existing intellectual property in the development of new products and to develop customer and strategic relationships in our target markets, expected expenses, including research and development and selling, general and administrative functions, our ability to compete favorably in new product introduction, innovation, quality, reliability and performance, and the amount and timing of new product shipments, anticipated revenue from our wireless and networking products, our beliefs regarding our accounting policies, our expectation that international revenue will account for a significant percentage of our revenue for the next 12 months, our expectations regarding trends in our future gross margin, average selling prices for our wireless product and networking products, erosion in demand for our legacy networking products, our expectation that Uniden will continue to be our largest customer for the next 12 months, our belief that trade payable balances will continue to fluctuate from period to period due to variations in our production cycle and timing of other operating expenses and our beliefs as to the adequacy of our existing cash resources.*

*Forward-looking statements are subject to risks and uncertainties that could cause actual results to differ materially from those projected. These risks and uncertainties include, but are not limited to, those risks discussed below and our dependence on key products and customers, changes in the demand for our products and seasonal factors affecting certain of our products, our ability to attract and retain customers and distribution partners for existing and new products, our ability to develop and introduce new and enhanced products in a timely manner, our dependence on international sales and risks associated with international operations, our dependence on outside foundries and test subcontractors in the manufacturing process and other outside suppliers, our ability to recruit and retain qualified employees, and the strength of competitive offerings and the prices being charged by those competitors, and the risks set forth below under "Factors that May Affect Future Operating Results".*

*These forward-looking statements speak only as of the date hereof. We expressly disclaim any obligation or undertaking to release publicly any updates or revisions to any forward-looking statements contained herein, to reflect any change in our expectations with regard thereto or any change in events, conditions or circumstances on which any such statement is based.*

*All references to "Micro Linear", "we", "us", "our" or the "Company" mean Micro Linear Corporation and its subsidiary, except where it is made clear that the term means only the parent company.*

## PART I

### Item 1. *Business*

#### General

Micro Linear Corporation is a fabless semiconductor company specializing in wireless integrated circuit solutions, which enable a variety of wireless products, serving a global market. Our products are used in many streaming wireless consumer applications such as digital cordless phones, PHS (Personal Handyphone System) handsets, wireless home theater speakers and headphones, security cameras, video game controllers, cordless headsets, digital baby monitors, computer peripherals, and other personal electronic appliances. Industrial applications that incorporate our products include lighting controls, home automation products, heating and cooling controls, vending machine controls, automatic meter reading devices, environmental monitoring devices and mesh networking nodes.

Our products are used in designs that replace wires to transfer information. We believe wireless connectivity offers freedom of mobility, flexibility of configuration, and significant infrastructure installation cost savings. An increasing number of products that were traditionally wired are now increasingly being designed as wireless, including telephone handsets, cell phone headsets, video game controllers, audio headphones and speakers, and computer peripherals. We believe that the benefits of these digital wireless solutions, combined with the cost-effectiveness of our products, will result in significant market growth for our products as more and more applications adopt digital wireless connections.

Our objective is to become a leading provider of digital wireless solutions for many large global markets. To meet this objective, we have embarked upon a number of strategic initiatives:

- We are focused on becoming a major provider of wireless semiconductors in the ISM (unlicensed Industrial, Scientific and Medical) and PCS (Personal Communications Services) bands which include: 900 MHz, 2.4GHz, and 5.8GHz as well as 1.9GHz for PHS/PCS. These transceivers can be used in many wireless applications such as: PHS handsets, cordless telephones, datacards, headsets, streaming wireless applications such as wireless speakers and headphones, security cameras and game controllers.
- We plan on developing new products that draw heavily on existing intellectual property. This reduces technical risk and development cycle time. These products are specifically defined, where possible, to allow them to address overlapping market segments to maximize sales volume, return on investment and market awareness.
- We plan on developing customer partnerships and major strategic relationships with industry-leading companies in our target market segments. We believe engaging with committed customers early in product development results in competitive product definitions, accelerated production ramps, and higher probability of commercial success.
- We have developed user-friendly evaluation tools and numerous production-ready reference designs that we believe will enable companies with limited wireless design expertise to quickly and efficiently implement wireless connectivity in their products using our integrated circuits. We believe these reference designs can also reduce the engineering costs associated with designing a wireless product that will meet the requirements of various international regulatory bodies.
- We intend to use our high volume manufacturing and testing expertise to enhance our competitive strength in delivering cost effective products with rapid time-to-market in the appropriate process technology.

## **Markets and Products**

### ***Wireless Consumer, Communications, and Industrial Products***

Digital wireless connectivity requires a radio frequency, or RF, physical interface and a baseband controller, the complexity of which depends on the specific application. The RF interface typically consists of an RF front end (power amplifier, low noise amplifier and switch), RF transceiver, and modem. The baseband controller provides an interface to the digital data source, control of the radio operation, and application support. We currently provide the RF transceiver and the RF front end, with the balance of the solution provided by other vendors, who in many cases have formed strategic marketing relationships with us. We believe our transceivers provide significant benefits to our customers, including lower cost, smaller form factor, higher data rates, enhanced range of operation, and an overall lower bill of material.

During 2004, our wireless RF transceiver products represented approximately 74% of our net revenue, compared to 64% in 2003 and 62% in 2002. We have delivered over 25 million RF transceivers that can now be found in digital cordless telephones, cordless headsets, video game controllers, and other digital wireless products.

During 2004, we expanded our customer base for RF transceivers to include additional digital cordless telephone vendors, video game controller suppliers, wireless headset manufacturers, and computer peripherals vendors. Products intended for the U.S. market use the unlicensed 5.8GHz and 900MHz frequency band, while wireless products designed for worldwide use operate at 2.4GHz. We began shipping our 5.8GHz product in high volume in 2004. This product is used in 5.8GHz digital cordless telephones targeted at the U.S. market.

A growing number of manufacturers have emerged who do not have the capability, or the desire, to design a wireless product starting at the component level. To achieve design wins with these emerging manufacturers, we have significantly increased our customer support tools through the creation of production-ready reference designs. Currently, we offer four distinct reference designs that customers can copy or modify to allow them to easily integrate digital wireless connectivity into their products. Two designs operate at 900MHz: a less expensive low power (0dBm output power) radio, and a higher power (18dBm) version. Two operate at 2.4GHz, again with one design intended for shorter range, lower priced sockets and the second targeting maximum range applications. All of these solutions are pre-scanned for compliance to the Federal Communications Commission rules for use in the unlicensed frequency bands. We anticipate that we will continue to expand our reference designs for our 5.8GHz and PHS transceiver products.

Our efforts in designing and testing these reference designs have afforded our engineers a good insight into the design issues confronted by our prospective customers, which we believe should assist us in making our new products more valuable to our customers. We intend to continue to develop application-specific reference designs based on our RF transceivers and other new products to support our customers' engineering teams and to address additional market segments and customers.

### ***Media Conversion Products***

We offer media conversion products that enable implementation of cost effective fiber to the home or FTTH systems. Two existing industry standards define Ethernet protocols over twisted pair copper media: 10Base-T for 10Mbps and 100Base-TX for 100Mbps. A low-cost silicon solution called a media converter provides the required signal conversion at each point where the twisted pair copper media interfaces to fiber media.

We believe we have been successful in providing silicon media conversion devices for Ethernet networks. We believe our product family is one of only a few that provides full auto-negotiation on both the twisted pair and fiber optic sides, to automatically configure the highest speed mode of operation on a link and select either half or full duplex operation. Additional benefits of our devices include providing the user a small footprint package, low power dissipation, and low component cost.

## **Sales and Distribution**

Our focus is on engaging large original equipment manufacturer customers, or OEMs, who incorporate wireless technologies into products targeted at high volume markets. To enable us to win business at these large accounts, our direct sales force focuses on key accounts. Sales to certain of our OEM customers do not carry return privileges and we recognize revenue for these sales upon shipment.

We address smaller customers via a network of domestic and international representatives and distributors who specialize in RF components. In 2004, our domestic sales represented approximately 6% of net revenue, compared to 9% and 11% in 2003 and 2002, respectively. We offer our domestic distributors product return privileges and, in the event we lower the prices of products sold to distributors, we guarantee price protection on unsold inventory. We defer recognition of revenue and gross margin derived from sales to our domestic distributors until the distributors resell our products to their customers. Some sales to domestic distributors are below contract pricing and are not guaranteed price protection or return privileges. On these sales, we do not defer revenue.

Outside the United States, our products are sold both directly to international customers and through distributors. International sales accounted for approximately 94%, 91% and 89% of our net revenue in 2004, 2003 and 2002, respectively. We expect international sales to continue to represent a significant portion of product sales for the foreseeable future, as more and more electronics manufacturing is concentrated in the Pacific Rim. On a portion of our sales to international distributors, we offer product return privileges and, if we lower the prices of our products, we guarantee price protection on unsold inventory, which is standard in the semiconductor industry. We defer revenue from this portion of shipments to international distributors until these distributors notify us of product sales to their customers. Some sales to international distributors are below contract pricing and are not guaranteed price protection or return privileges. On these sales, we do not defer revenue.

During 2004, sales to OEMs represented 86% of our net revenue, and sales through our distribution channel represented 14% of net revenue. While sales to our largest customer pass through an international distributor, we classify these sales as OEM sales since the distributor does not fulfill a traditional distributor stocking role. However, we defer revenue until this international distributor has resold the product to the end customer.

A relatively small number of large customers have accounted for a significant portion of our net revenue in each of the past several years. During 2004, 2003 and 2002, our top ten customers, excluding domestic distributors, together accounted for approximately 82%, 77% and 79% of net revenue, respectively. During 2004, one customer, Uniden Corporation, accounted for 55% of our total sales and sales to Giant Electronics Limited (a subcontractor for Plantronics, Inc.), our second largest customer, accounted for 10% of our total sales. Seasonal demand characterizes the consumer electronics market, including Uniden's digital cordless telephones, which incorporate our transceivers. We expect Uniden to continue to account for a significant portion of our sales in 2005. Sales to Uniden are subject to the same seasonality of demand and to all of the inherent variability of the consumer electronics market. We expect that sales to Giant Electronics will also account for a significant portion of our sales in 2005.

During 2004, 2003 and 2002, all of our net revenue was derived from sales of products for the wireless communications market and the computer networking market. During 2004, 2003 and 2002 wireless shipments accounted for approximately 74%, 64% and 62% of net revenue. Sales of our products to network equipment manufacturers accounted for approximately 26%, 36% and 38% of our net revenue in 2004, 2003 and 2002, respectively.

## **Backlog**

We do not believe that backlog is a meaningful indicator of our future business prospects, due to the significant percentage of orders received and shipped within the same quarter and the ability of our customers to cancel or reschedule orders outside a thirty-day period without significant penalty.



## **Technology**

We believe our success and sustainable competitive advantages depend on the acceptance and continued development of our core technologies. Technologies that we believe give us a competitive advantage include:

- Design expertise and experience at 5.8GHz frequencies;
- Design expertise and experience integrating power amplifiers into our transceivers, which offer lower cost, smaller designs and greater simplicity in overall system design;
- Low intermediate frequency radio transceivers, which offer cost-effective, high integration, programmable radio solutions with minimal external components;
- Automatically calibrated active circuits that reduce manufacturing cost and complexity, and result in higher production yields;
- High performance RF, analog mixed signal, and digital circuit designs using silicon germanium, (SiGe), and standard BiCMOS technologies; and
- Advanced packaging to reduce the cost and enhance the performance and functionality of our radio solutions.

We use standard process technologies available from leading semiconductor foundries. Silicon technologies currently used or being implemented in new designs include:

- 0.18 micron and 0.35 micron SiGe for advanced RF transceivers; and
- 0.6 micron BiCMOS for low cost transceivers and media converters.

## **Manufacturing**

We utilize outside foundries for all of our silicon wafer requirements, outside suppliers for both wafer sort and final product test, and outside assembly services to package our products. After assembly, the packaged units are final tested and final inspected by subcontractors prior to shipment to customers. Extensive electrical testing is individually performed on all circuits, using advanced, automated test equipment capable of high volume production, to ensure that the circuits satisfy specified performance levels.

We believe that using outside foundries and other manufacturing services enables us to focus on our design strengths, minimize fixed costs and capital expenditures, and access diverse manufacturing technologies. We depend on silicon foundries located in the United States, Singapore and Japan for products currently in production as well as those currently being designed. Other manufacturing processes are performed by companies in the United States, Malaysia, Korea, Hong Kong, Singapore, and the Philippines.

## **Research and Development**

We employ state of the art integrated circuit development software tools in order to shorten development cycles and accurately simulate the performance of our designs before committing to costly and time-consuming silicon fabrication. These tools represent a significant portion of our research and development budget. Our product development strategy focuses on highly integrated silicon solutions, employing a modular design to allow for use in a broad range of applications, enabling us to address multiple markets quickly with similar platforms.

As silicon technology advances, new processes enable higher levels of performance while existing processes become more cost effective. We watch these trends closely in order to provide the highest performance and most cost effective solutions to our customers.

In May 2003, we undertook a restructuring that consolidated most of our design activities into our San Jose, California headquarters. Our engineering design center in San Jose is involved in the development of advanced communications circuits and systems for wireless markets. Device validation, characterization,

reliability testing, and automatic test equipment test development activities are also located in San Jose. In addition to our San Jose engineering organization, we also have a small design group in Salt Lake City, Utah.

Research and development expenses were \$9.5 million, \$10.0 million, and \$15.7 million in 2004, 2003, and 2002, respectively. We reduced engineering headcount as part of our overall restructuring efforts in 2003. In planning these reductions, we carefully reviewed and focused our product roadmap. We expect to continue spending significant funds on research and development activities to deliver leading edge products that have the promise of volume shipments within a short time following their introduction.

## **Competition**

The semiconductor industry is characterized by price erosion, rapid technological change, short product life cycles, cyclical market patterns and heightened international and domestic competition. The market segments in which we participate are intensely competitive, and many semiconductor companies presently compete, or could compete, in one or more of our target markets. Our principal competitors are National Semiconductor, Infineon, Philips, Texas Instruments, DSP Group, Atheros, and Atmel. Many of our competitors offer broader product lines and have substantially greater financial, technical, manufacturing, marketing and other resources. In addition, many of our competitors maintain their own wafer fabrication facilities, which provide them with a competitive advantage.

We believe that product innovation, quality, reliability, performance and the ability to introduce products rapidly are important competitive factors. We believe that, by virtue of our product application knowledge and design expertise coupled with a rigorous design methodology, we can compete favorably in the areas of rapid new product introduction, product innovation, quality, reliability and performance. However, we may be at a disadvantage in comparison to larger companies with broader product lines, greater technical and financial resources, and greater service and support capabilities.

During 2004, we continued to expand our product development partnership with Oki Electric Industry Co., Ltd. We believe that this relationship, as well as other less formal development partnerships that we have recently engaged in, will result in more optimized and complete application-specific radio solutions. The availability of such solutions should result in greater acceptance of our digital wireless products as well as shorter development cycle times for our customers.

The acceptance of future products will depend on their direct applicability to the intended market, their cost-effectiveness, and the availability of easily implemented systems-level solutions based on these products. Larger competitors with larger development staffs, larger research and development budgets, and access to more technologies could deliver competitive products with improved feature sets, more products with differentiated feature sets and/or complete chipsets or system solutions, thus providing them a distinct competitive advantage.

## **Patents and Licenses**

Our success depends, in part, on our ability to obtain patents and licenses and to preserve other intellectual property rights covering our products, procedures, development tools and testing tools. To that end, we own certain patents and intend to continue to seek patents on our inventions when appropriate. We own eight U.S. patents, and have nine U.S. patent applications. We own two foreign patents, and have thirteen foreign applications pending. Through a sale of a portion of our assets, we maintain a royalty-free license to forty-five U.S. patents, three foreign patents, seven U.S. patent applications, and three foreign patent applications. We believe that although the patents described above may have value, given the rapidly changing nature of the semiconductor industry, we depend primarily on the technical competence and creativity of our technical workforce.

We have not currently licensed any third parties to manufacture our products. We have no current plans to grant product licenses with respect to any products; however, we may find it necessary to enter into product licenses in the future. We have granted nontransferable, limited process licenses to each of our foundries to utilize our proprietary processes to manufacture our products.

## **Employees**

As of December 31, 2004, we had 56 full-time employees, ten of whom were engaged in manufacturing (including test development, quality and materials functions), 29 in research and development, eight in marketing, applications and sales, and nine in finance and administration. Our employees are not represented by any collective bargaining agreements, and we have never experienced a work stoppage. We believe that our employee relations are good.

## **Available Information**

We are subject to the informational requirements of the Securities Exchange Act of 1934. We therefore file periodic reports, proxy statements and other information with the Securities and Exchange Commission. Such reports may be obtained by visiting the Public Reference Room of the SEC at 450 Fifth Street, NW, Washington, D.C. 20549, or by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains an internet site (<http://www.sec.gov>) that contains reports, proxy and information statements and other information regarding issuers that file electronically.

Our Web site is <http://www.microlinear.com>. We make available free of charge, on or through our Web site, our annual, quarterly and current reports, and any amendments to those reports, as soon as reasonably practicable after electronically filing such reports with the Securities and Exchange Commission (SEC). Information contained on our Web site is not incorporated by reference unless specifically referenced herein.

## **Item 2. *Properties***

In July 2004, we sold our San Jose facilities for approximately \$7.0 million. We recognized a gain on the sale of approximately \$1.1 million and the sale generated cash of approximately \$4.6 million, net of a \$1.9 million mortgage payoff and \$0.5 million of closing costs. We have entered into a one year lease agreement with the new owners to lease back a portion of the facilities as we search for a new location for our headquarters. We currently lease 32,000 square feet of space and our lease expires at the end of July 2005. Due to the high vacancy rates for commercial space in the San Jose California area, we do not foresee any difficulty in our ability to find sufficient space at the expiration of our lease.

## **Item 3. *Legal Proceedings***

From time to time we receive correspondence from vendors, distributors, customers or end-users of our products regarding disputes with respect to contract rights, product performance or other matters that occur in the ordinary course of business. Some of these disputes may involve us in costly litigation or other actions, the outcome of which cannot be determined in advance and may adversely affect our business. The defense of lawsuits or other actions could divert our management's attention away from running our business. In addition, negative developments with respect to litigation could cause the price of our common stock to decline significantly. There are no lawsuits pending at this time.

## **Item 4. *Submission of Matters to a Vote of Security Holders***

None.

## PART II

### Item 5. *Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

#### *Market Information*

The following table sets forth the highest and lowest sale prices of our Common Stock over the last eight quarters, as reported in the Nasdaq National Market. Our Common Stock is listed on the Nasdaq National Market under the symbol "MLIN."

#### Common Stock Prices

	<u>High</u>	<u>Low</u>
<b>Fiscal Year 2004</b>		
Fourth Quarter .....	\$5.65	\$4.09
Third Quarter .....	6.38	5.03
Second Quarter .....	6.90	4.65
First Quarter .....	7.95	5.50
<b>Fiscal Year 2003</b>		
Fourth Quarter .....	\$6.70	\$2.68
Third Quarter .....	3.41	2.78
Second Quarter .....	3.89	2.47
First Quarter .....	4.00	3.05

#### *Approximate Number of Common Equity Security Holders*

<u>Title of Class</u>	<u>Approximate Number of Record Holders (As of December 31, 2004)</u>
Common Stock, \$0.001 Par Value .....	222(1)

- (1) The number of stockholders of record treats all of the beneficial holders of shares held in one "nominee" or "street name" as a unit.

#### *Dividend Policy*

We have not paid or declared cash dividends on our Common Stock within the past five years and do not anticipate paying any cash dividends in the foreseeable future. Any determination with respect to the payment of dividends will be at the discretion of our board of directors.

#### *Securities Authorized for Issuance under Equity Compensation Plans*

The information required by this Item is included under Item 12 of Part III of this Report on Form 10-K.

**Item 6. Selected Consolidated Financial Data**

The following selected consolidated financial data for the five-year period ended December 31, 2004 should be read together with our Consolidated Financial Statements and notes thereto included in Item 8 of this report and "Management's Discussion and Analysis of Financial Condition and Results of Operations" included in Item 7 of this report.

	December 31,				
	2004	2003	2002	2001	2000
	(In thousands, except per share data)				
<b>Statement of Operations Data:</b>					
Net revenue .....	\$20,637	\$ 20,696	\$28,700	\$ 22,085	\$ 37,699
Gross margin .....	\$11,534	\$ 9,440	\$16,394	\$ 11,825	\$ 18,372
Loss from operations .....	\$(4,183)	\$(10,410)	\$(8,383)	\$(13,783)	\$(13,266)
Net loss .....	\$(4,065)	\$(10,407)	\$(2,848)	\$(16,159)	\$(11,786)
Net loss per share					
Basic and Diluted .....	\$ (0.33)	\$ (0.85)	\$ (0.24)	\$ (1.35)	\$ (1.01)
Weighted average shares used in per share computations					
Basic and Diluted .....	12,400	12,231	12,088	11,935	11,635
	December 31,				
	2004	2003	2002	2001	2000
	(In thousands)				
<b>Balance Sheet Data:</b>					
Working capital .....	\$16,335	\$14,226	\$24,255	\$24,575	\$38,110
Total assets .....	\$20,925	\$27,438	\$39,022	\$44,513	\$62,580
Long-term obligations, less current portion .....	\$ —	\$ —	\$ 2,064	\$ 2,308	\$ 2,547
Stockholders' equity .....	\$16,822	\$20,112	\$30,310	\$32,806	\$48,008

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

*The following discussion of our financial condition and results of operations should be read together with the financial statements and related notes included elsewhere in this report on Form 10-K. This discussion contains forward-looking statement, including those discussed in "Forward-Looking Statements". These statements are subject to risks and uncertainties which may cause actual results to differ materially from those discussed in these statements, including risks and uncertainties discussed under "Factors That May Affect Future Operating Results."*

**Overview**

Micro Linear Corporation is a fabless semiconductor company specializing in wireless integrated circuit solutions, which enable a variety of wireless products serving a global market. These transceivers can be used in many streaming wireless applications such as cordless phones, PHS handsets, wireless speakers and headphones, security cameras, game controllers, cordless headsets and other personal electronic appliances. Headquartered in San Jose, California, Micro Linear's products are available through its authorized representatives and distributors worldwide.

We were founded in 1983, and until 2000 we were a supplier of advanced analog and mixed signal integrated circuits to the computer, communications, telecommunications, consumer and industrial markets. During 2000, we divested our manufacturing test operation and our non-communication product lines and focused our marketing, engineering and product development on new communications products, including some wired networking products, but most notably wireless integrated circuits. During 2001, we established

ourselves as a volume supplier of RF transceivers to the digital cordless telephone segment of the communications market. Wireless product revenue represented 74% of net revenue for 2004 compared to 64% of net revenue for 2003. We expect the revenue contribution from wireless products to continue to increase as a percentage of total revenue.

In October 2002, we announced that in order to better align our product development activities with our revenue-producing markets, we would stop development of 802.11a broadband wireless products. The realignment process included redirecting certain engineering activities, and reorganizing sales, marketing and applications to strengthen major account support. As part of the realignment, we reduced our workforce by 39 employees. On May 19, 2003, we undertook a restructuring effort that eliminated approximately 37 additional positions in all operational segments of the Company, and consolidated some functions at our San Jose headquarters.

### **Opportunities and Challenges**

Our operating results are likely to continue to fluctuate as a result of many factors, including, but not limited to: the level, timing, cancellation or rescheduling of customer orders, changes in market demand, fluctuations in manufacturing yields and cost, market acceptance of our products, economic conditions specific to the networking and wireless industries and markets, and general economic conditions.

As a result of competitive pricing pressures we may experience lower margins in our wireless products, and we expect these pricing pressures to continue. In addition, the wireless and computer networking markets have undergone a period of rapid growth and consolidation in recent years. Although sales of our legacy networking products continue to decline as expected, we are still dependent on sales to computer network equipment manufacturers to continue. As a result, our business would suffer in the event of a significant slowdown in the networking equipment market. We intend to try to offset this decline in networking revenue by continuing to introduce new wireless products.

The wireless and computer equipment networking markets in which we compete are characterized by continuing technological advancement, changes in customer requirements, and evolving industry standards. To address these challenges, we must design, develop, manufacture and sell new or enhanced products that provide increasingly higher levels of performance and reliability, are cost effective, and brought to market in a timely manner. Sales to one wireless customer, Uniden Corporation (Uniden), represented 55% of our total revenue during 2004 and we expect will represent a significant portion of our revenue during 2005. We are dependent on our relationship with Uniden and as a result our business would also suffer in the event of a significant slowdown in Uniden's business.

Successful engineering development and market penetration in the product areas we have chosen require high levels of engineering and product development expense. We have sometimes experienced delays in completing the development of new products. As we do not currently manufacture our own semiconductor wafers, we are vulnerable to process technology advances competitors use to manufacture products offering higher performance and lower cost.

To address these challenges, we intend to pursue various opportunities. For example, we intend to continue to spend significant amounts of resources on new product and technology development, predominately wireless semiconductors. We intend to broaden our markets into many streaming wireless applications such as PHS transceivers, wireless speakers and headphones, security cameras, game controllers, cordless headsets and cordless telephones. We also intend to leverage our existing intellectual property in the development of new products to reduce technical risk and development cycle time and to develop customer and strategic relationships in our target markets to strengthen our competitive position.

### **Critical Accounting Policies**

Management's Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements, which have been prepared in accordance with accounting principles

generally accepted in the United States. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses, and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Senior management has discussed the development, selection and disclosure of these estimates with the Audit Committee of our Board of Directors. Actual results may differ from these estimates under different assumptions or conditions. Management believes the following critical accounting policies reflect its more significant estimates and assumptions used in the preparation of our consolidated financial statements.

Our critical accounting policies are as follows:

- Revenue recognition;
- Estimating accrued liabilities and allowance for doubtful accounts;
- Inventory and related allowance for obsolete and excess inventory;
- Accounting for income taxes; and
- Valuation of long-lived and intangible assets

#### ***Revenue Recognition***

We recognize revenue for product shipped directly to OEM customers at the time of shipment, provided that we have received a signed purchase order, the price is fixed, title has transferred, and collection of the resulting receivable is reasonably assured. Sales to our OEM customers are made without return privileges and revenue on these sales is recognized upon shipment. We defer recognition of revenue from sales of our products to distributors under agreements which allow certain rights of return and price adjustments on unsold inventory. The associated cost of product on these sales to distributors is also deferred and included in our inventory balances. Revenue and cost of product is recognized when the distributor resells the product to its customers. Some sales to distributors are below contract pricing and are not guaranteed price protection or return privileges. On these sales, we do not defer revenue.

We record estimated reductions to revenue for expected product returns. In determining the amount of the allowance, we analyze historical returns, current economic trends and changes in customer demand and acceptance of our products. There were no allowances for returns recorded at December 31, 2004.

#### ***Estimating Accrued Liabilities and Allowance for Doubtful Accounts***

The preparation of financial statements requires us to make estimates and assumptions that affect the reported amount of accrued liabilities and disclosure of contingent liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reported period.

We perform ongoing credit evaluations of our customers based on a number of factors, including past transaction history and the creditworthiness of the customer, as determined by an evaluation of the customer's financial statements, credit rating, bank and credit references. We do not generally require collateral from the customer. For certain international customers, we obtain letters of credit or cash payments in advance of shipment. Allowances for potential credit losses are established based on management's review of individual accounts. The accounts receivable balance was \$2.9 million, net of allowance for doubtful accounts of \$139,000, as of December 31, 2004. An unexpected change in a major customer's ability to meet its obligation could have an adverse material effect on our financial position and results of operations.

#### ***Inventories and Related Allowance for Obsolete and Excess Inventory***

We value inventories at the lower of standard cost or market. Standard costs are adjusted to approximate actual costs on a first-in, first-out basis. The value of inventories is reduced by an estimated allowance for

excess and obsolete inventories. This allowance for excess and obsolete inventories is based upon our review of demand for our products in light of projected sales, current market conditions, and market trends. If a significant, unanticipated decrease in demand for our products or significant technological development occurs, we may deem it necessary to provide for additional inventory reserves, which may have a material adverse impact on our gross margin. For inventory for which a reserve is provided, we do not release the reserve until the inventory is sold or otherwise disposed of.

### ***Accounting for Income Taxes***

As part of the process of preparing the consolidated financial statements, we are required to estimate income taxes in each of the jurisdictions in which we operate. This process involves estimating actual current tax exposure together with assessing temporary differences resulting from differing treatment of items, such as deferred revenue, for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within the consolidated balance sheet. We must then assess the likelihood that deferred tax assets will be recovered from future taxable income or tax planning strategies and to the extent we believe that recovery is not likely, we must establish a valuation allowance. To the extent we establish a valuation allowance or increase this allowance in a period, it is reflected as an expense within the tax provision in the statement of operations.

Significant management judgment is required in determining the provision for income taxes, deferred tax assets and liabilities and any valuation allowance recorded against net deferred tax assets. We have recorded a full valuation allowance of \$15.9 million as of December 31, 2004, due to uncertainties related to the ability to utilize our deferred tax assets, primarily consisting of certain net operating losses carried forward and foreign tax credits, before they expire. The valuation allowance is based on estimates of taxable income by jurisdiction in which we operate and the period over which deferred tax assets will be recoverable. In the event that actual results differ from these estimates or we adjust these estimates in future periods, we may need to establish an additional valuation allowance or release existing allowances, which could materially impact our financial position and results of operations.

### ***Valuation of Long-Lived and Intangible Assets***

We evaluate the carrying value of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. In the third quarter of 2003, we completed an impairment review of our land and buildings. The review was undertaken due to continued weakness in the commercial real estate markets, local vacancy rates and recent real estate transactions in our local market. Upon completion of our review, we determined that the carrying values of these assets exceeded their future undiscounted cash flows. Accordingly, we recorded an impairment loss of \$1.5 million to write down the assets to their current estimated market value. In July 2004, we sold our San Jose facilities for approximately \$7.0 million. We recognized a gain on the sale of approximately \$1.1 million and the sale generated cash of approximately \$4.6 million, net of a \$1.9 million mortgage payoff and \$0.5 million of closing costs. In fiscal year 2002, we wrote down \$0.4 of impaired capitalized software primarily due to the discontinuation of the 802.11a broadband wireless program.

### ***Recent Accounting Pronouncements***

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment," an amendment to Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation" and Statement of Financial Accounting Standards No. 95, "Statement of Cash Flows." The revised standard addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic



method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS No. 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, companies to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS No. 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. Currently, we disclose the pro forma net income (loss) and related pro forma income (loss) per share information in accordance with SFAS 123 and Statement on Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation Costs — Transition and Disclosure." We believe that adoption of the new standard will have an adverse impact on our results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. SFAS No. 151 will be effective in fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on our financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 will be effective for nonmonetary transactions in fiscal years beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material effect on our financial position or results of operations.

## **Results of Operations**

### ***Revenue***

We recognize revenue from product shipped directly to OEM customers at the time of shipment. Sales to our OEM customers are made without return privileges. During 2004, our top ten OEM customers collectively accounted for approximately 80% of net revenue. We defer recognition of revenue and costs of our products to distributors until the distributor resells the product to its customers. However, some sales to distributors are below contract pricing and are not guaranteed price protection or return privileges. On these sales, we do not defer revenue.

Sales to Uniden, our largest customer, pass through an international distributor, and are recognized as revenue upon the distributor's resale to the end customer. However, these sales are classified as OEM in our percent of net revenue presentation, since the distributor does not fulfill a traditional distributor-stocking role for this customer. In 2004, sales through domestic distributors represented 5% of net revenue. Total international sales through international distributors, exclusive of sales to Uniden, represented 9% of net revenue.

## Results of Operations

The following table presents certain consolidated statements of operations data for the periods indicated:

	For the Years Ended December 31,					
	2004		2003		2002	
	(In thousands)					
Net revenue						
Wireless .....	\$15,257	73.9%	\$ 13,225	63.9%	\$17,924	62.5%
Networking .....	5,380	26.1%	7,471	36.1%	10,776	37.5%
Total net revenue .....	20,637	100.0	20,696	100.0	28,700	100.0
Cost of goods sold .....	9,103	44.1	11,256	54.4	12,306	42.9
Gross margin .....	11,534	55.9	9,440	45.6	16,394	57.1
Operating expenses:						
Research and development .....	9,469	45.9	9,966	48.1	15,739	54.8
Selling, general and administrative .....	7,220	35.0	7,362	35.6	8,661	30.2
Gain on sale land and buildings .....	(1,138)	(5.5)	—	—	—	—
Fixed asset impairment and restructuring charges .....	166	0.8	2,522	12.2	377	1.3
Total operating expenses .....	15,717	76.2	19,850	95.9	24,777	86.3
Loss from operations .....	(4,183)	(20.3)	(10,410)	(50.3)	(8,383)	(29.2)
Interest income and other, net .....	142	0.7	81	0.4	427	1.5
Loss before income taxes .....	(4,041)	(19.6)	(10,329)	(49.9)	(7,956)	(27.7)
Provision (benefit) for taxes .....	24	0.1	78	0.4	(5,108)	(17.8)
Net loss .....	<u>\$(4,065)</u>	<u>(19.7)%</u>	<u>\$(10,407)</u>	<u>(50.3)%</u>	<u>\$(2,848)</u>	<u>(9.9)%</u>

### Net Revenue

	2004	% Change 2003 to 2004	2003	% Change 2002 to 2003	2002
	(In thousands)				
Wireless .....	\$15,257	15.4%	\$13,225	(26.2)%	\$17,924
Networking .....	5,380	(28.0)%	7,471	(30.7)%	10,776
Total .....	<u>\$20,637</u>	<u>(0.3)%</u>	<u>\$20,696</u>	<u>(27.9)%</u>	<u>\$28,700</u>

Net revenue for 2004 was \$20.6 million, essentially flat with net revenue for 2003. Wireless product revenue, however, increased 15% in 2004 over 2003. The increase in wireless product revenue was mainly due to the 36% increase in our average selling prices compared to 2003, driven mainly by the higher average selling price of our high volume 5.8GHz product, the ML5800, as compared to the average selling price of our 2.4GHz product, the ML2724 that was shipping in volume throughout 2003. Also, in the third quarter of 2004, we began shipping our ML5824 transverter in volume, and demand for our 900MHz product, the ML2722, remained strong throughout 2004. The increase in wireless product revenue was achieved despite an overall decrease of 15% in the unit shipments of these products. We expect erosion in average selling prices of our wireless products over the coming year as our ML5800 and ML5824 products mature.

Net revenue from our networking products decreased significantly, as expected, due mainly to the continuing fall off in the demand for our legacy networking products as they approach end-of-life. Unit shipments of our networking products decreased 16% during 2004 as compared to 2003, and the average selling prices of these products decreased 14% in 2004 as compared to 2003 due to a shift in product mix. We expect that the average selling prices of networking products will stabilize over the coming year but we

anticipate that the erosion in demand for our legacy networking products will continue, resulting in lower networking product revenue.

Net revenue for 2003 decreased 28% as compared to net revenue for 2002. Wireless product revenue decreased in 2003 as compared to 2002 despite a 9% increase in unit shipments during 2003 as we experienced significant price erosion in our volume 2.4 GHz product, the ML2724. The decrease due to the price erosion experienced in 2003 was offset only slightly by an increase in volume shipments.

International revenue for 2004 totaled \$19.5 million, or 94% of net revenue, compared to \$18.9 million, or 91% of net revenue, for 2003, and \$25.4 million, or 89% of net revenue, for 2002. Domestic revenue was approximately 6% of net revenue for 2004, compared to 9% for 2003 and 11% for 2002. We expect that international revenue will continue to account for the substantial majority of our total revenue in 2005.

In fiscal 2004, Uniden Corporation and Giant Electronics Limited (a subcontractor for Plantronics) accounted for 55% and 10% of net revenue, respectively. In fiscal 2003 and 2002, Uniden Corporation accounted for 56% of net revenue. Although our strategy is to engage large customers for new design wins, we expect that Uniden Corporation will continue to be our largest customer during the next twelve months.

### *Gross Margin*

	<u>2004</u>	<u>% Change 2003 to 2004</u>	<u>2003</u>	<u>% Change 2002 to 2003</u>	<u>2002</u>
	(In thousands)				
Gross Margin .....	\$11,534	22.2%	\$9,440	(42.4)%	\$16,394
% of Net Revenue .....	55.9%		45.6%		57.1%

Gross margin is affected by the unit volume of product shipments, selling prices, product mix, manufacturing subcontract costs, manufacturing utilization, and product yields. It is also periodically affected by costs incurred in connection with start-up and installation of new process technologies at outside manufacturing foundries and test subcontractors. Gross margin is also affected by increases in inventory provisions required for excess and obsolete inventories.

Our gross margin for 2004 increased 10% over 2003, despite being negatively impacted during the year due to \$0.4 million in charges for write-downs in inventory related to excess quantities of certain of our legacy networking products and certain wireless products.

Gross margin for wireless products was 51% for 2004 as compared to 33% for 2003 and gross margin for networking products was 68% for 2004 as compared to 72% for 2003.

The increase in wireless product gross margin was primarily due to the 36% increase in average selling prices and a 13% decrease in direct unit product costs. The growth in our average selling prices was driven primarily by sales of our ML5800, which began shipping in volume during the second quarter of 2004. The decrease in our direct unit product cost during 2004 was primarily due to our ability to maintain high yields in the manufacture of our ML5800 product and our ability to achieve high yields on our ML5824, which we began producing in volume during the third quarter of 2004. Comparatively, during 2003, wireless product gross margin was negatively impacted by continued significant erosions in average selling prices and higher unit product costs due to the low yields on the ML2724, our 2.4GHz wireless product that was shipping in high volumes during 2003. During 2004 we incurred \$0.2 million in charges due to increases in our inventory provisions for certain legacy wireless products. These charges impacted the wireless product gross margin by 1% in 2004. Sales of previously written down wireless inventories were not significant during 2004.

The networking product gross margin percentage decreased 4 percentage points during 2004. This decrease in margin was mainly due to a decrease of 14% in the average selling prices of these products, resulting primarily from a shift in product mix. The decrease in networking product average selling prices was offset partially by a 16% decrease in direct unit product costs. During 2004 we incurred \$0.2 million in charges due to increases in our inventory provisions for certain legacy networking products. These charges impacted

the networking product gross margin by 4% in 2004. Sales of previously written down networking inventories were \$0.1 million in 2004. These sales increased the gross margin of networking products by 2% during 2004.

Production overhead costs increased 26% in 2004 as compared to 2003, driven primarily by production start-up costs at two of our test subcontractors in 2004. Production overhead costs represented 12% of total product costs in 2004, up from 9% of total product costs in 2003. We expect that production overhead costs will decrease slightly as a percentage of revenue over the coming year.

The decrease in gross margin in 2003, compared to 2002, resulted mainly from the decrease in the average selling prices of our wireless products and to a lesser extent the shift in product mix of our networking products. The margin decreases were slightly offset by decreases in manufacturing subcontract costs realized through a combination of a decrease in the costs of our silicon wafers and efficiencies realized in the costs to test our products. In addition, gross margin was negatively impacted in 2003 by low yields on our ML2724 product that was shipping in high volume, in the second and third quarters. These manufacturing problems were identified and fixed during the fourth quarter of 2003. During 2003 we incurred \$0.1 million in charges due to increases in our inventory provisions for certain legacy wireless products. These charges impacted the wireless product gross margin by 1% in 2003. Sales of previously written down inventories were not significant during 2003.

Fixed manufacturing overhead spending decreased by \$0.6 million in 2003 as compared to 2002 but remained at 9% of net revenue in both of these periods due to the overall decrease in revenue in 2003 as compared to 2002.

#### *Research and Development Expenses (R&D)*

	<u>2004</u>	<u>% Change 2003 to 2004</u>	<u>2003</u>	<u>% Change 2002 to 2003</u>	<u>2002</u>
	(In thousands)				
R&D .....	\$9,469	(5.0)%	\$9,966	(36.7)%	\$15,739

Research and development expenses include costs associated with the definition, design and development of new products. In addition, research and development expenses include test development and prototype costs associated with new product development.

We expense wafers and new production mask sets related to new products as research and development costs until products based on new designs are fully characterized, support published data sheets and satisfy reliability tests.

Research and development costs decreased 5% in 2004 as compared to 2003, a total cost reduction of \$0.5 million. Employee related costs, consisting mainly of wages and benefits, decreased \$0.3 million, and facility expenses decreased by approximately \$0.3 million, due mainly to the action taken to reduce engineering headcount and consolidate facilities as part of our overall restructuring efforts undertaken in May 2003. In addition, costs of laboratory equipment and software design tools decreased slightly over \$0.3 million in 2004 as compared to 2003, mainly due to a reduction in depreciation expense and amortization on capitalized software, also resulting from our May 2003 restructuring efforts, and a renegotiation of certain software license agreements. These cost reductions were partially offset by an increase in other costs of \$0.4 million, primarily related to development of new products.

The decrease in our 2003 expenses compared to 2002 was mainly due to our restructuring efforts implemented in May 2003. We reduced engineering headcount as part of these restructuring efforts and consolidated most of the design and testing activities in our San Jose headquarters and a small design group located in Salt Lake City, Utah.

We expect to continue spending significant funds on research and development activities to deliver leading edge products that have a promise of high volume shipments within a short time following their introduction.

### *Selling, General and Administrative (SG&A)*

	<u>2004</u>	<u>% Change</u> <u>2003 to 2004</u>	<u>2003</u>	<u>% Change</u> <u>2002 to 2003</u>	<u>2002</u>
	<u>(In thousands)</u>				
SG&A.....	\$7,220	(1.9)%	\$7,362	(15.0)%	\$8,661

The decrease in selling general and administrative expenses in 2004 compared to 2003 was due mainly to a \$0.4 million reduction in employee related expenses resulting from the restructuring that we undertook in the second quarter of 2003 and \$0.3 million in reduced marketing prototype costs in 2004 compared to 2003. The reduction in these expenses was partially offset by an increase in our bad debt expense of \$0.2 million in 2004 compared to 2003, an increase in consulting expenses of \$0.2 million resulting primarily from our Sarbanes-Oxley Act Section 404 implementation project, and an increase in travel expenses of \$0.2 million related to the introduction of new products.

The decrease of \$1.3 million in 2003 selling, general and administrative expenses, as compared to 2002, was primarily a result of the restructuring efforts we undertook in May 2003 and the associated headcount reductions across all selling, general and administrative functions. These cost reductions were offset somewhat by the increase in costs associated with marketing prototypes for new products.

We expect that selling, general and administrative expenses will increase over the coming year as we incur higher consulting, auditing and legal expenses related to the cost of complying with the Sarbanes-Oxley Act.

### *Fixed Asset Impairment, Restructuring Charges and Sale of Land and Buildings*

In the third quarter of 2003, we completed an impairment review of our land and buildings. The review was undertaken due to an unsolicited offer to purchase our facilities, continued weakness in the commercial real estate markets, local vacancy rates and recent real estate transactions in our local market. Upon completion of our review, we determined that the carrying values of these assets exceeded their future undiscounted cash flows. Accordingly, we recorded an impairment loss of \$1.5 million to write down the assets to their current estimated market value.

In July 2004, we sold our San Jose facilities for approximately \$7.0 million. We recognized a gain on the sale of approximately \$1.1 million and the sale generated cash of approximately \$4.6 million, net of a \$1.9 million mortgage payoff and \$0.5 million of closing costs.

In the second quarter of 2003, we announced a restructuring plan to better align our organizational structure with current business conditions. This realignment process included workforce reductions across all functions of the Company's operations and a consolidation of our design centers into our San Jose facility. The activity in our restructuring reserve, consisting of restructuring charges and related utilization, for the fiscal year ended December 31, 2004 is shown in the table below. In 2004 we provided \$0.2 million for our remaining lease obligations, net of expected sublease payments, on our Utah facility which we vacated in the first quarter of 2004. When these facilities were vacated, the related accrued rent was reclassified to our restructuring reserves. The remaining balance of the reserve relates to our continuing charges for rent and leased equipment obligations.

	<u>Severance and Benefits</u>	<u>Excess Facilities</u>	<u>Total</u>
	(In thousands)		
Balance, December 31, 2002 .....	\$ —	\$ —	\$ —
Additional provisions .....	689	373	1,062
Utilizations .....	(663)	(373)	(1,036)
Balance, December 31, 2003 .....	26	—	26
Additional provisions .....	—	166	166
Reclassification .....	—	82	82
Utilizations .....	(26)	(99)	(125)
Balance, December 31, 2004 .....	<u>\$ 0</u>	<u>\$ 149</u>	<u>\$ 149</u>

We recorded restructuring charges in 2003 of approximately \$1.0 million, consisting primarily of employee severance and related termination costs of \$0.6 million and a fixed asset impairment charge of \$0.4 million for assets to be disposed of due to headcount reductions and vacating facilities. We did not maintain any restructuring reserves at the beginning of 2003 but had a \$26,000 ending reserve balance to provide for employee severance costs that had been incurred but not paid during 2003.

During 2002 we recognized \$0.4 million in asset impairment charges relating to capitalized software that was purchased specifically for our 802.11a development project that was cancelled in October 2002.

#### *Interest and Other Income and Interest Expense*

	<u>2004</u>	<u>% Change 2003 to 2004</u>	<u>2003</u>	<u>% Change 2002 to 2003</u>	<u>2002</u>
	(In thousands)				
Interest and other income .....	\$252	(15.2)%	\$297	(56.5)%	\$683
Interest and other expense .....	\$110	49.1%	\$216	(15.6)%	\$256

The decrease in interest and other income from 2003 to 2004 and from 2002 to 2003 was primarily due to the reduction in interest income affected by changes in our cash balances. The decrease in interest and other expense from 2004 to 2003 is mainly due to the repayment of the mortgage on our San Jose facility, which was repaid in July 2004 when the property was sold.

#### *Provision (Benefit) for Income Taxes*

<u>2004</u>	<u>% Change 2003 to 2004</u>	<u>2003</u>	<u>% Change 2002 to 2003</u>	<u>2002</u>
		(In thousands)		
\$24	69.2%	\$78	(98.5)%	\$(5,108)

Our effective tax rate was 0.6% for 2004, 0.8% for 2003 and a 64% tax benefit for 2002. The provision for the twelve months ended December 31, 2004 consists mainly of minimum state tax obligations and minor taxes incurred by our subsidiary in the United Kingdom. The 0.8% effective tax rate for 2003 is primarily due to the recording of a valuation allowance against our deferred tax asset as of December 31, 2003 and taxes

associated with our UK operations. The 64% effective rate for 2002 is primarily due to tax refunds resulting from a tax law change in 2002 that allowed us to carryback net operating losses to prior years.

## Liquidity and Capital Resources

	For the Years Ended December 31,		
	2004	2003	2002
	(In thousands)		
Net cash used in operating activities .....	\$(6,659)	\$(7,204)	\$(2,106)
Net cash provided by (used in) investing activities .....	10,266	5,173	(2,029)
Net cash provided by (used in) financing activities .....	(1,390)	(67)	48
Net increase (decrease) in cash and cash equivalents .....	<u>\$ 2,217</u>	<u>\$(2,098)</u>	<u>\$(4,087)</u>

### *Net Cash Used in Operating Activities*

Cash used by operating activities during 2004 was due mainly to our net operating loss of \$4.1 million, which was net of a gain of \$1.1 million from the sale of our San Jose facilities in July 2004. Excluding this gain our net operating loss was \$5.2 million. Our major uses of cash are operating expenses and cost of product manufactured. During 2004 the major additional uses of cash were an increase of accounts receivable of \$2.0 million, due primarily to higher sales in December 2004 as compared to 2003, and a decrease of \$1.1 million in our trade payables at December 31, 2004 as compared to 2003. We expect trade payable balances to continue to fluctuate from period to period due to variations in our production cycle and timing of other operating expenses. These uses were partially offset by non-cash depreciation and amortization charges of \$0.6 million, and the inventory provision charge of \$0.4 million.

Cash used in operating activities during 2003 was primarily due to our \$10.4 million net loss, offset by a non-recurring non-cash charge of \$1.5 million recorded for impairment in the value of our San Jose facilities, non-cash restructuring charges of \$0.4 million, and non-cash depreciation and amortization charges of \$0.9 million. In addition, during 2003 we collected \$1.4 million in income tax refunds due to net operating loss carrybacks that were recorded in 2002. Cash used in operating activities during 2003 also included cash provided by an increase in our accounts payable balances of \$0.6 million, \$0.4 million of which related to a customer refund due for products which were returned in December. These favorable cash items were offset by a decrease in deferred revenue of \$1.4 million due primarily to lower stocking levels at our largest distributor and a \$0.4 million decrease in accrued liabilities due in large part to a decrease in a legal accrual related to the successful outcome of the Pioneer Magnetics litigation.

Cash used in operating activities during 2002 was primarily due to our net loss of \$2.8 million. The net loss included a \$5.1 million tax benefit primarily due to the carryback of net operating losses to profitable years, \$3.7 million of which was received in tax refunds in 2002.

Other components of operating cash flows for 2004, 2003 and 2002 are set forth in detail in our Consolidated Statements of Cash Flows.

### *Net Cash Provided by (or Used in) Investing Activities*

Net cash provided during 2004 included net proceeds from the sale of our San Jose facilities. The net sales price for the facilities was \$7.0 million and we recognized a gain on the sale of approximately \$1.1 million. The sale generated cash of approximately \$4.6 million after the payoff of the remaining balance on the mortgage of \$1.9 million and payment of sales commission and sales transaction costs of \$0.5 million. We also generated cash from the net proceeds from sales of short-term investments of \$4.3 million, and used \$0.6 million to purchase capital equipment consisting mainly of engineering equipment and software design tools used in research and development projects. Capital expenditures for this type of equipment are expected to stay near 2004 levels in the coming year and we anticipate that we will be able to provide for these expenditures without any additional sources of financing.

Net cash provided by (used in) investing activities during 2003 and 2002 consisted primarily of net proceeds from sales (purchases) of short-term investments. In 2003, cash used for capital expenditures increased to \$0.5 million compared to \$0.3 million in 2002.

***Net Cash provided by (or Used in) Financing Activities***

Net cash used in financing activities for 2004, 2003 and 2002 consists primarily of principal payments on our real estate mortgage of \$2.0 million, \$0.3 million and \$0.2 million, respectively, offset partially by proceeds from the issuance of common stock in connection with the exercise of employee stock options of \$0.6 million, \$0.2 million, and \$0.3 million, respectively. The mortgage on our San Jose facilities was paid off when the buildings were sold during 2004.

***Contractual Obligations by Year (in thousands):***

<u>Contractual Obligations</u>	<u>Payments Due by Period</u>				
	<u>Total</u>	<u>Less Than 1 Year</u>	<u>1-3 Years</u>	<u>3-5 Years</u>	<u>More Than 5 Years</u>
Inventory Commitment .....	\$ 502	\$ 502	\$ —	\$—	\$—
Operating and Facility Leases .....	<u>1,447</u>	<u>1,053</u>	<u>394</u>	<u>—</u>	<u>—</u>
Total .....	<u>\$1,949</u>	<u>\$1,555</u>	<u>\$394</u>	<u>\$—</u>	<u>\$—</u>

Working capital was \$16.3 million at December 31, 2004, including cash and cash equivalents of \$10.9 million and short-term investments of \$4.7 million.

We anticipate that existing cash resources will fund any anticipated operating losses, purchases of capital equipment, and provide adequate working capital for at least the next 12 months. Our liquidity is affected by many factors, including, among others, the extent to which we pursue additional wafer fabrication capacity from existing foundry suppliers or new suppliers, capital expenditures, the level of our product development efforts, and other factors related to the uncertainties of the industry and global economies. Accordingly, there can be no assurance that events in the future will not require us to seek additional capital sooner or, if so required, that such capital will be available on terms acceptable to us.

**Factors That May Affect Future Operating Results**

The risks and uncertainties described below are not the only ones we face. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially and adversely affected:

***Our operating results are difficult to predict and are likely to fluctuate significantly. They may fail to meet or exceed the expectations of securities analysts or investors, causing our stock price to decline.***

Our operating results are difficult to predict and have fluctuated significantly in the past. They are likely to continue to fluctuate in the future as a result of many factors, some of which are outside of our control. Some of the factors that may cause these fluctuations include:

- the level and timing of spending by our customers, both in the U.S. and in foreign markets;
- changes in market demand, including seasonal and cyclical fluctuations;
- timing, amount, cancellation or rescheduling of customer orders;
- fluctuations in manufacturing yields;
- timing of revenue recognition from contracts, which may span several quarters;
- competitive market conditions;
- the announcement or introduction of new or enhanced products by us, or competitors, or both;



- any delay in the introduction of new or enhanced products by us;
- market acceptance of our new products and continuing demand for our existing products;
- cost and availability of wafers, other components and testing services;
- mix of products sold;
- fluctuations in end user demand for wireless products manufactured by our customers which incorporate our technology;
- economic conditions specific to the networking and wireless industries and markets, as well as general economic conditions;
- ability to hire and retain qualified technical and other personnel;
- development of new industry standard communication protocols; and
- availability and performance of advanced silicon process technologies from foundry sources.

We believe that period-to-period comparisons of our operating results will not necessarily be meaningful. You should not rely on these comparisons as an indication of our future performance. If our operating results in one or more future periods fail to meet or exceed the expectations of securities analysts or investors, the trading price of our common stock may fluctuate, possibly by a significant amount.

***The markets in which we operate are intensely competitive, and many competitors are larger and more established. If we do not compete successfully, our business could be harmed.***

Intense international and domestic competition, decreasing selling prices, rapid technological change, short product life cycles and cyclical patterns characterize the markets for our products. Competitors include significantly larger corporations. New entrants in these markets could provide additional competition. Most of our competitors are substantially larger and have greater financial, technical, marketing and other resources than we do. Many of these large organizations are in a better position to withstand any significant reduction in spending by customers in these markets. They often have broader product lines and market focus, and will therefore not be as susceptible to downturns in a particular market. In addition, many competitors have focused on the wireless market for longer than we have, and therefore have more long-standing and established relationships with domestic and foreign customers.

The computer networking equipment and wireless markets have undergone a period of rapid growth and consolidation in recent years. We expect our dependence on sales to digital cordless phone and network equipment manufacturers to continue. Our business and results of operations would be harmed in the event of a significant slowdown in the digital cordless phone or computer networking equipment market. In addition, as a result of competitive pricing pressures, we have experienced lower margins on some of our products. Such pricing pressures will continue to have an adverse effect on our results of operations, and our business could suffer unless they can be offset by higher margins on other products or lower operating expenses.

We do not currently manufacture our own semiconductor wafers. As a result, we are vulnerable to process technology advances competitors use to manufacture products offering higher performance and lower cost. Larger companies with wafer manufacturing facilities, broader product lines, greater technical and financial resources and greater service and support capabilities have an advantage in this market.

In addition, our products are generally sole-sourced to our customers. If our customers were to develop other sources for our products, our operating results would be harmed.

***The market for wireless applications is characterized by rapid technological change. Our future success depends on our ability to respond to these changes.***

Rapidly changing technology, frequent product introductions and evolving industry standards make it difficult to accurately predict the market's future growth rate, size or technological direction. In view of the evolving nature of this market, suppliers of wireless products may decide to adopt alternative standards or

technologies that are incompatible with our products. If we are unable to design, develop, manufacture and sell products that are compatible with these new standards or technologies, our business and operating results would be harmed.

*We need to develop and introduce new and enhanced products in a timely manner to successfully compete in our industry.*

Continuing technological advancement, changes in customer requirements and evolving industry standards characterize the wireless and computer equipment networking markets. To compete successfully, we must design, develop, manufacture and sell new or enhanced products that:

- provide increasingly higher levels of performance and reliability;
- meet performance or other objective specified parameters;
- are cost effective;
- are brought to market in a timely manner;
- are in accordance with existing or evolving industry standards; and
- achieve market acceptance.

The development of these new circuits is highly complex. We have sometimes experienced delays in completing the development of new products. Successful product development and introduction depends on many factors, including:

- proper new product definition;
- timely completion and introduction of new product designs;
- availability of foundry capacity;
- acceptable manufacturing yields; and
- market acceptance of our products and our customers' products.

We must be able to adjust to changing market conditions quickly and cost-effectively to compete successfully. Furthermore, we must introduce new products in a timely manner, and achieve market acceptance for these products. In addition, our customers' products which incorporate our products must be introduced in a timely manner and achieve market acceptance. If we, or our customers, fail to develop and introduce new products successfully, our business and operating results would suffer.

To successfully develop and market certain of our planned products, we may need to enter into technology development or licensing agreements with third parties. If we cannot enter into such agreements on acceptable terms, our ability to develop and market new products could suffer, and our business and operating results would be adversely affected.

Customers typically take a long time to evaluate our new products. It takes three to six months or more for customers to test new products, and at least an additional three to 12 months until customers begin significant production of products incorporating our products. We may therefore experience a lengthy delay between product development and the generation of revenue from new products. Delays inherent in such a long sales cycle raise additional risks that customers may decide to cancel or change their product plans. Such changes could result in the loss of anticipated sales. Our business, financial condition, and results of operations would suffer if customers reduce or delay orders, or choose not to release products incorporating our products.

*We have a history of losses and, because of continued investment in product development, expect to incur losses in the future. We may not become profitable.*

We have incurred quarterly net losses from June 2000 through December 2004, except for a profit in the third quarter of 2002 which was attributable to an income tax refund, and a profit in the third quarter of 2004

which occurred from the sale of our land and buildings. Because of those losses, we had an accumulated deficit of \$24.3 million as of December 31, 2004.

Successful engineering development and market penetration in the product areas we have chosen to compete in require high levels of engineering and product development expense. We intend to continue to spend significant amounts on new product and technology development. Our networking products are reaching maturity, and revenue from this product line has declined and is expected to decline further over the next 12 months. We anticipate that our existing cash will fund any anticipated operating losses, purchases of capital equipment, and provide adequate working capital for at least the next 12 months. We expect to incur losses in the future and may not achieve our goals of positive net income and cash flow.

***To the extent that our existing resources and cash generated from operations are insufficient to fund our future activities, we may need to raise additional capital. If funds are not available on acceptable terms, we may not be able to hire or retain employees, fund our operations or compete effectively.***

We believe that our existing capital resources and cash generated from operations will enable us to maintain our operations for at least the next 12 months. However, if our capital requirements or results of operations vary materially from those currently planned, we may require additional financing sooner than anticipated. If additional funds are raised through the issuance of debt securities, these securities could have rights, preferences and privileges senior to our common stock, and the terms of this debt could impose restrictions on our operations. The sale of additional equity or convertible debt securities could result in additional dilution to our stockholders. We cannot be certain that additional financing will be available in amounts or on terms acceptable to us, if at all. If adequate funds are not available to us on acceptable terms, our ability to hire, train or retain employees, to fund our operations and sales and marketing efforts, take advantage of unanticipated opportunities, develop or enhance services or products, or respond to competitive pressures would be significantly limited, which could harm our business, financial condition and operating results.

***We depend on networking, wireless, and telecommunications spending for our revenue. Any decrease or delay in spending in these industries would negatively impact future operating results and financial condition.***

Demand for our products in the future will depend on the amount and timing of spending by network providers, manufacturers of wireless consumer products, and telecommunications equipment suppliers. Spending in these areas depends upon a variety of factors, including competitive pressures, discretionary consumer spending patterns, and general economic conditions.

During 2002 and 2003 new orders slowed, customers cancelled or placed holds on existing orders, and orders dropped from prior periods, due to developments in the general economy and capital markets. This situation could recur in the future. Because the majority of our revenue comes from sales to a few customers, a delay in orders from one customer could have a significant negative effect on future revenue.

Relatively short product life cycles characterize the computer network equipment and digital cordless telephone markets. If one or more of our significant customers were to select circuits manufactured by a competitor for future products, our business would suffer. The loss of one or more of our current customers, failure to attract new customers, or disruption of our sales and distribution channels could harm our business and operating results.

***Our customer base is concentrated. The loss of one or more key customers or distributors would harm our business.***

A significant majority of our revenue comes from sales to relatively few customers. Sales to the ten largest customers, excluding domestic distributors, in 2004, 2003, and 2002 accounted for approximately 82%, 77%, and 79% of net revenue, respectively. Sales to domestic distributors in 2004, 2003, and 2002 accounted for approximately 5%, 5%, and 7% of net revenue. We anticipate that a limited number of key customers and distributors will continue to provide a significant portion of our net revenue for the foreseeable future. During

2004, two customers each accounted for more than 10% of our net revenues, Uniden Corporation accounted for 55% of our total sales and Giant Electronics Limited (a subcontractor for Plantronics) accounted for 10% of our total sales. Our future success depends on our ability to retain our current customers and attract new customers. A reduction, delay or cancellation of orders from one or more significant customers could materially harm our operating results. In addition, our operating results could be adversely affected if one or more of our major customers were to develop other sources for the products we now supply them.

Generally, customers may cancel or reschedule orders to purchase standard products without significant penalty until 30 days prior to requested shipment. Customers frequently revise delivery schedules, and the quantities of products to be delivered, to reflect changes in their needs. Since backlog can be canceled or rescheduled, our backlog at any time is not necessarily indicative of future revenue.

*We depend on international sales and are subject to the risks associated with international operations, which may negatively affect our business.*

Sales to customers outside of the United States in 2004, 2003, and 2002 represented 94%, 91%, and 89% of net revenue, respectively. We expect that international sales will continue to generate a substantial proportion of net revenue for the foreseeable future. Our international operations are subject to a number of risks, including:

- changes in regulations and laws of foreign governments and telecommunications standards;
- import and export legislation and license requirements, tariffs, taxes, quotas and other trade barriers;
- compliance with foreign laws, treaties and technical standards;
- delays resulting from difficulty in obtaining export licenses for certain technology;
- fluctuations in currency exchange rates;
- difficulty in collecting accounts receivable;
- difficulty in managing foreign operations;
- loss of one or more international distributors;
- geopolitical risks, changes in diplomatic and trade relationships and economic instability; and
- political and economic instability, including wars, acts of terrorism, political unrest, boycotts and any related conflicts or similar events worldwide.

Substantially all of our international sales must be licensed by the Office of Export Administration of the U.S. Department of Commerce. To date, we have not experienced any material difficulties in obtaining export licenses.

Our international sales are typically denominated in U.S. dollars. Fluctuations in currency exchange rates could cause our products to become relatively more expensive to customers in a particular country, while competitors' products denominated in local currencies become less expensive. This may lead to a reduction in sales or profitability in that country, which could adversely affect our business.

Gains and losses on the conversion to U.S. dollars of accounts receivable, accounts payable and other international assets and liabilities may contribute to fluctuations in operating results. In addition, international customers typically take longer to pay for purchases than customers in the United States. If foreign markets do not continue to develop, or foreign sales cycles prove unpredictable, our revenue and business would be adversely affected.

***Selling prices for wireless products typically decrease, which could lead to lower operating results.***

Average selling prices for products in the wireless markets have rapidly declined due to many factors, including:

- rapidly changing technologies;
- price-performance enhancements;
- product introductions by competitors;
- price pressure from significant customers; and
- product maturity and obsolescence.

The decline in the average selling prices of our products may cause substantial fluctuations in our operating results. We continue to develop and market new products that incorporate valued new features and sell at higher prices. Failure to deliver new products offering increased value would result in a decline in both revenue and margins, harming our business, financial condition, and results of operations.

***Defects in our products, product returns and product liability could result in a decrease in customers and revenue, unexpected expenses and loss of market share.***

Complex products such as ours frequently contain errors, defects, and bugs upon release. Despite thorough testing by Micro Linear, our test houses and customers, these errors, defects and bugs are sometimes discovered after we begin to ship products. We expend significant resources to remedy these problems, but occasionally have faced legal claims by customers and others. Product defects can also cause interruptions, delays or cancellations of sales to customers, in addition to claims against us, all of which could adversely affect our operating results.

***We depend on the health of the semiconductor industry, which is highly cyclical. The decline in demand in the semiconductor industry could affect our financial condition and results of operations.***

The semiconductor industry experiences significant downturns and wide fluctuations in supply and demand. The industry also experiences significant fluctuations in anticipation of changes in general economic conditions. This causes significant variances in product demand and production capacity, and aggravates both our manufacturing costs and product selling prices. These cyclical patterns, which we expect to continue, may substantially harm our business, financial condition, and results of operations.

***If we fail to adequately forecast demand for our products, we may incur product shortages or excess product inventory.***

We regularly request indications from customers as to their future plans and requirements, to ensure that we will be prepared to meet production demand for our products. However, we may not receive anticipated purchase orders for our products. We must be able to effectively manage the expenses and inventory risks associated with meeting potential demand. If we fail to meet customers' supply expectations, we may lose business from such customers. If we expend resources and purchase materials, or enter into commitments to acquire materials and manufacture products, and customers do not purchase these products, our business and operating results would suffer.

Design wins, which require significant expenditures, often precede the generation of volume sales by a year or more. The value of any design win will largely depend upon the commercial success of the customer's product, and on the extent to which the design of the customer's product accommodates components manufactured by our competitors. We cannot assure that we will achieve design wins, or that any design win will result in significant future revenue.

*We depend on a limited number of outside foundries and test subcontractors in the manufacturing process, and any failure to obtain sufficient foundry or testing capacity could significantly delay our ability to ship our products, damage our customer relationships, and result in reduced revenue.*

We utilize outside foundries for all wafer production. We believe that utilizing outside foundries enable us to focus on our design strengths, minimize fixed costs and capital expenditures and access diverse manufacturing technologies. We currently intend to continue to rely exclusively upon our outside foundries for our wafer fabrication requirements. However, there are significant risks associated with the reliance on outside foundries, including the lack of assured wafer supply and control over delivery schedules, delays in obtaining access to key process technologies, and limited control over manufacturing yields and production costs.

The manufacture of integrated circuits is a highly complex and technically demanding process. We have diversified our sources of wafer supply and have worked closely with our foundries to minimize the likelihood of reduced manufacturing yields. However, our foundries have sometimes experienced lower than anticipated manufacturing yields, particularly in connection with the introduction of new products and the installation and start-up of new processes. Reduced yields have, at times, negatively affected our operating results, a situation which may recur in the future.

Dependence on foundries located outside of the United States subjects us to numerous risks, including exchange rate fluctuations, export and import restrictions, trade sanctions, political instability and tariff increases. One of our main foundries is located in Singapore, which presents specific risks due to political instability in that region.

We purchase wafers from outside foundries pursuant to customers' purchase orders. We generally do not have a guaranteed level of wafer capacity or wafer costs at our foundries. Our wafer suppliers could prioritize capacity for other uses, or reduce or eliminate deliveries to us on short notice. In addition, we depend upon a limited number of foundries for our wafer requirements. Any sudden demand for an increased amount of wafers, or sudden reduction or elimination of any source of wafers, could result in a material delay in the shipment of products. Disruptions in supply, which have occurred in the past, may occur in the future. If such a disruption occurred, and we were unable to qualify alternative manufacturing sources for our products in a timely manner, or if such sources were unable to produce wafers with acceptable manufacturing yields, our business and operating results would be materially and adversely affected.

We rely on four outside test service subcontractors to test our products. The same risks described in the paragraphs above, concerning guaranteed capacity, dependence upon a limited number of test service subcontractors, and disruptions in service, also apply to our test and assembly subcontractors.

Rapid technological change and frequent new product introductions characterize the markets for our products. To remain competitive, we must develop or obtain access to new semiconductor process technologies in order to reduce die size, increase die performance and functional complexity, and improve manufacturing yields. If we are unable to obtain access to advanced wafer processing technologies, limiting our ability to introduce competitive products on a timely basis, our future operating results would be harmed.

Minute levels of contaminants in the semiconductor manufacturing environment, defects in the masks used to print circuits on a wafer, difficulties in the fabrication process and other factors can cause a substantial percentage of wafers to be rejected or a significant number of die on each wafer to be nonfunctional. Many of these manufacturing problems are difficult to diagnose and time consuming and expensive to remedy. Our foundries have, at times, experienced lower than anticipated yields, which have adversely affected production and operating results.

The manufacturing processes utilized by our foundries are continuously being improved in order to increase yield and product performance. Process changes can, however, result in interruptions in production or significantly reduced yields. New process technologies and new products are especially susceptible to wide variations in manufacturing yields and efficiency. Irregularities, adverse yield fluctuations or other manufacturing problems at our foundries could result in production interruption or delivery delays, which would harm our business and results of operations.

We have granted nontransferable, limited process licenses to some of our foundries to utilize our processes to manufacture and sell wafers to other customers. We protect our proprietary technology, particularly our design methodology, but may not be able to prevent its misappropriation by our foundries or others.

***We and the independent foundries and subcontractors we use to manufacture and test our products are subject to environmental laws. Failure to comply with these laws could delay manufacturing of our products and result in unexpected expenses.***

Our wafer suppliers and test and assembly subcontractors are subject to a variety of U.S. and foreign government regulations related to the discharge or disposal of toxic, volatile or otherwise hazardous chemicals used in their manufacturing processes. Failure by our suppliers or subcontractors to comply with environmental regulations could result in fines, suspension of production or cessation of operations. Environmental regulations could also require our suppliers or subcontractors to acquire equipment or incur other expenses to comply with environmental regulations. If our suppliers or subcontractors incur substantial additional expenses, product costs could significantly increase, adversely affecting our results of operations.

We are also subject to a variety of environmental regulations relating to our operations. If we fail to comply with present and future regulations, the government could impose fines on us, or compel us to suspend or cease operations. If we or our suppliers or subcontractors fail to control the use or discharge of hazardous substances, we could be subject to civil or criminal liabilities, which could harm our business and operating results.

***Because competition for qualified personnel is intense, we may not be successful in attracting and retaining personnel, which could have an impact upon the development or sales of our products.***

Our future success will depend to a significant extent on our ability to attract, retain and motivate qualified personnel, especially those with engineering design experience and expertise. We may not be successful in attracting and retaining such qualified personnel.

Competitors may attempt to recruit our employees. While employees are required to sign standard agreements concerning confidentiality and ownership of inventions, we do not have employment contracts or non-competition agreements with most of our personnel. The loss of the services of key employees, the inability to attract or retain qualified personnel, or delays in hiring personnel, particularly engineers and other technical personnel could negatively affect our business and prevent us from achieving our business goals.

***Our success depends on our ability to protect our intellectual property and proprietary rights.***

We own eight U.S. patents, and have nine U.S. patent applications. We own two foreign patents, and have 13 foreign applications pending. Through a sale of a portion of our assets, we maintain a royalty-free license to several U.S. patents, foreign patents, U.S. patent applications, and foreign patent applications.

We attempt to protect our intellectual property rights through patents, trademarks, copyrights, licensing arrangements, maintaining certain technology as trade secrets and other measures. However, any patent, trademark, copyright or other intellectual property rights we own may be invalidated, circumvented or challenged. We cannot be certain that our intellectual property rights will provide competitive advantages, or that any pending or future patent applications will be issued with the scope of the claims sought by us. Competitors may develop technologies that are similar or superior to our technology, duplicate our technology or design around the patents that we own. In addition, effective patent, copyright and trade secret protection may be unavailable or limited in certain foreign countries in which we do business.

We believe that the future success of our business will depend on our ability to translate technological expertise and innovation into new and enhanced products. We enter into confidentiality or license agreements with our employees, consultants, vendors and customers, and limit access to and distribution of our proprietary information. Nevertheless, we may not be able to prevent the misappropriation of our technology.

In addition, we have taken legal action to enforce our patents and other intellectual property rights, protect our trade secrets, determine the validity and scope of the proprietary rights of others, and defend against claims of infringement or invalidity. If a third party makes a valid claim, and we cannot obtain a license to the technology on reasonable terms, our operations could be harmed.

We may be subject to legal proceedings and claims from time to time in the ordinary course of our business, including claims of alleged infringement of the proprietary rights and other intellectual property rights of third parties. Intellectual property litigation is expensive and time-consuming, and could divert our management's attention away from running our business.

***We have in the past, and may in the future, be parties to legal proceedings that could have a negative financial impact on us.***

From time to time we have received correspondence from vendors, distributors, customers or end-users of our products regarding disputes with respect to contract rights, product performance or other matters that occur in the ordinary course of business. Some of these disputes may involve us in costly litigation or other actions, the outcome of which cannot be determined in advance and may adversely affect our business. The defense of lawsuits or other actions could divert our management's attention away from running our business. In addition, negative developments with respect to litigation could cause the price of our common stock to decline significantly.

***Our stock price has been and will likely continue to be volatile because of stock market fluctuations that affect the price of technology stocks. A decline in our stock price could result in securities class action litigation against us, which could divert management's attention and harm our business.***

Our stock price has been and is likely to continue to be highly volatile. Between January 1, 2004 and December 31, 2004, our stock price has traded as high as \$7.95 on January 28, 2004, and as low as \$4.09 on December 7, 2004. Our stock price could fluctuate significantly due to a number of factors, including:

- variations in our actual or anticipated operating results;
- sales of substantial amounts of our stock;
- announcements about us or about our competitors, including technological innovation or new products;
- litigation and other developments relating to our patents or other proprietary rights or those of our competitors;
- conditions in the computer networking equipment and wireless markets;
- governmental regulation and legislation; and
- changes in securities analysts' estimates of our performance, or our failure to meet analysts' expectations.

Many of these factors are beyond our control. In addition, the stock markets in general, and the NASDAQ National Market and the market for technology companies in particular, have experienced extreme price and volume fluctuations recently. These fluctuations often have been unrelated or disproportionate to the operating performance of these companies. These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. In the past, companies that have experienced volatility in the market prices of their stock have been the objects of securities class action litigation. If we were the objects of securities class action litigation, it could result in substantial costs and a diversion of management's attention and resources, which could harm our business.



***Our Certificate of Incorporation and Bylaws, Stockholder Rights Plan and Delaware law contain provisions that could discourage a change in control, even if the change in control would be beneficial to our stockholders.***

Provisions of our Amended and Restated Certificate of Incorporation, Bylaws, the 1998 Shareholder Rights Plan, our stock option plans and Delaware law could make it more difficult for a third party to acquire us, even if doing so would be beneficial to our stockholders. These provisions could limit the price that investors might be willing to pay in the future for shares of our common stock.

Under the Shareholder Rights Plan, adopted in August 1998, each share of our outstanding common stock carries one Right to purchase 1/1000 of a share of Series A Participating Preferred Stock at an exercise price of \$30.00 per Right. If someone acquires 15% or more of our common stock, each Right not owned by a holder of 15% or more of our common stock entitles the holder, upon payment of the \$30.00 exercise price, to receive common stock having a current market value of \$60.00. This issuance of additional common stock would significantly reduce the percentage of common stock held by a potential acquirer. The Rights expire in August 2008.

In addition, Section 203 of the Delaware General Corporation Law and the terms of our stock option plans may discourage, delay or prevent a change in control of Micro Linear. Specifically, Section 203 prohibits a Delaware corporation from engaging in any business combination with an interested stockholder for three years after the date the stockholder became an interested stockholder unless specific conditions are met. Also, in the event outstanding options granted pursuant to certain of our stock option plans are not assumed by an acquiring corporation, the unvested portion of such options may be accelerated upon a change of control. In addition, some individual stock option grants provide for the partial or complete acceleration of vesting upon a change of control.

***Recently enacted regulatory changes may cause us to incur increased costs.***

Recently enacted and proposed changes in the laws and regulations affecting public companies, including the provisions of the Sarbanes-Oxley Act of 2002 and rules adopted by the SEC and NASDAQ, could cause us to incur increased costs as we evaluate the implications of new rules and respond to new requirements. The new rules could make it more difficult for us to obtain certain types of insurance, including director and officer liability insurance, and we may be forced to accept reduced policy limits and coverage or incur substantially higher costs to obtain the same or similar coverage. The impact of these events could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, or as executive officers. We are presently evaluating and monitoring developments with respect to these new and proposed rules, and we cannot predict or estimate the amount of additional costs we may incur or the timing of such costs.

***Changes to financial accounting standards may affect our results of operations and cause us to change our business practices.***

We prepare our financial statements to conform with generally accepted accounting principles, or GAAP, in the United States. These accounting principles are subject to interpretation by the American Institute of Certified Public Accountants, the Securities and Exchange Commission and various bodies formed to interpret and create appropriate accounting policies. A change in those policies can have a significant effect on our reported results and may affect our reporting of transactions completed before a change is announced. Changes to those rules or the questioning of current practices may adversely affect our reported financial results or the way we conduct our business. For example, accounting policies affecting many aspects of our business, including rules relating to employee stock option grants, have recently been revised or are under review. The Financial Accounting Standards Board and other agencies have finalized changes to U.S. generally accepted accounting principles that will require us, starting in our third quarter of 2005, to record a charge to earnings for employee stock option grants and other equity incentives. We may have significant and ongoing accounting charges resulting from option grant and other equity incentive expensing that could reduce our overall net income. In addition, since we historically have used equity-related compensation as a component of our total employee compensation program, the accounting change could

make the use of equity-related compensation less attractive to us and therefore make it more difficult to attract and retain employees.

*While we believe that we currently have adequate internal controls over financial reporting, we are exposed to risks from recent legislation requiring companies to evaluate those internal controls.*

Section 404 of the Sarbanes-Oxley Act of 2002 requires our management to report on, and our independent auditors to attest to, the effectiveness of our internal control structure and procedures for financial reporting. We have an ongoing program to perform the system and process evaluation and testing necessary to comply with these requirements. This legislation is relatively new and neither companies nor accounting firms have significant experience in complying with its requirements. As a result, we expect to incur increased expense and to devote additional management resources to Section 404 compliance. In the event that our chief executive officer, chief financial officer or independent registered public accounting firm determine that our internal controls over financial reporting are not effective as defined under Section 404, investor perceptions of our company may be adversely affected and could cause a decline in the market price of our stock.

#### **Item 7A. *Quantitative and Qualitative Disclosures about Market Risk***

##### **Interest Rate Risk**

As of December 31, 2004 our investment portfolio consisted of U.S. government obligations, commercial paper and money market funds, typically with maturities of less than 12 months (see Note 1 to the Consolidated Financial Statements). Some of these securities are subject to interest rate risk, and will decline in value if market interest rates increase. If market interest rates were to increase immediately and uniformly by 10% from levels at December 31, 2004 and December 31, 2003, the fair market value of these investments would decline by an immaterial amount.

##### **Foreign Currency Exchange Risk**

Our international sales are significant in relation to our total sales; however, substantially all of our sales are in United States dollars. We do maintain small amounts of foreign currencies to fund our international operations, but to date, our exposure related to exchange rate volatility has not been significant.

**Item 8. *Financial Statements and Supplementary Data***

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## REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of Micro Linear Corporation:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Micro Linear Corporation and its subsidiary at December 31, 2004 and 2003, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

/s/ PRICEWATERHOUSECOOPERS LLP

San Jose, California  
March 25, 2005

**MICRO LINEAR CORPORATION**  
**CONSOLIDATED BALANCE SHEETS**

	December 31,	
	2004	2003
	(In thousands, except share and per share amounts)	
ASSETS		
Current assets:		
Cash and cash equivalents .....	\$ 10,920	\$ 8,703
Short-term investments .....	4,660	8,966
Accounts receivable, net of allowance for doubtful accounts of \$139 and \$30 at December 31, 2004 and 2003, respectively .....	2,878	937
Inventories .....	1,770	2,383
Other current assets .....	<u>210</u>	<u>563</u>
Total current assets .....	20,438	21,552
Property, plant and equipment, net .....	459	5,860
Other assets .....	<u>28</u>	<u>26</u>
Total assets .....	<u>\$ 20,925</u>	<u>\$ 27,438</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable .....	\$ 1,500	\$ 2,683
Accrued compensation and benefits .....	988	737
Deferred revenue .....	494	681
Other accrued liabilities .....	1,121	1,185
Short-term debt .....	<u>—</u>	<u>2,040</u>
Total current liabilities .....	<u>4,103</u>	<u>7,326</u>
Commitments and contingencies (Note 11)		
Stockholders' equity:		
Preferred stock, \$.001 par value; authorized shares 5,000,000; none issued .....	—	—
Common stock, \$.001 par value; authorized shares 30,000,000; issued shares 15,144,552 and 14,972,378 at December 31, 2004 and 2003; outstanding shares 12,455,652 and 12,283,478 at December 31, 2004 and 2003 .....	15	15
Additional paid-in capital .....	61,368	60,583
Accumulated deficit .....	(24,320)	(20,255)
Accumulated other comprehensive income (loss) .....	(8)	2
Treasury stock, at cost, 2,688,900 shares at December 31, 2004 and 2003 .....	<u>(20,233)</u>	<u>(20,233)</u>
Total stockholders' equity .....	<u>16,822</u>	<u>20,112</u>
Total liabilities and stockholders' equity .....	<u>\$ 20,925</u>	<u>\$ 27,438</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MICRO LINEAR CORPORATION**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

	Years Ended December 31,		
	2004	2003	2002
	(In thousands, except per share amounts)		
Net revenue .....	\$20,637	\$ 20,696	\$28,700
Cost of goods sold .....	<u>9,103</u>	<u>11,256</u>	<u>12,306</u>
Gross margin .....	<u>11,534</u>	<u>9,440</u>	<u>16,394</u>
Operating expenses:			
Research and development .....	9,469	9,966	15,739
Selling, general and administrative .....	7,220	7,362	8,661
Gain on sale of land and buildings .....	(1,138)	—	—
Fixed asset impairment .....	—	1,500	—
Restructuring charges .....	<u>166</u>	<u>1,022</u>	<u>377</u>
Total operating expenses .....	<u>15,717</u>	<u>19,850</u>	<u>24,777</u>
Loss from operations .....	(4,183)	(10,410)	(8,383)
Interest and other income .....	252	297	683
Interest and other expense .....	<u>(110)</u>	<u>(216)</u>	<u>(256)</u>
Loss before income taxes .....	(4,041)	(10,329)	(7,956)
Provision for (benefit from) income taxes .....	<u>24</u>	<u>78</u>	<u>(5,108)</u>
Net loss .....	<u><u>\$ (4,065)</u></u>	<u><u>\$ (10,407)</u></u>	<u><u>\$ (2,848)</u></u>
Net loss per share (basic and diluted):			
Net loss per share .....	<u><u>\$ (0.33)</u></u>	<u><u>\$ (0.85)</u></u>	<u><u>\$ (0.24)</u></u>
Weighted average number of shares used in per share computation ...	<u><u>12,400</u></u>	<u><u>12,231</u></u>	<u><u>12,088</u></u>

The accompanying notes are an integral part of these consolidated financial statements.

**MICRO LINEAR CORPORATION**  
**CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY**

	Common Stock		Additional	Accumulated			Total	
	Shares	Amount	Paid-In	Other	Accumulated	Treasury	Stockholders'	Comprehensive
			Capital	Comprehensive	Deficit	Stock	Equity	Loss
				Loss				
				(In thousands, except share amounts)				
<b>Balance at December 31, 2001</b> . . .	12,071,367	\$15	\$59,939	\$ 85	\$ (7,000)	\$(20,233)	\$ 32,806	\$(16,079)
Stock options exercised under employee stock option plans . . . .	109,908	—	238	—	—	—	238	—
Shares purchased under employee stock purchase plan . . . . .	22,023	—	54	—	—	—	54	—
Amortization of deferred compensation . . . . .	—	—	121	—	—	—	121	—
Net loss . . . . .	—	—	—	—	(2,848)	—	(2,848)	(2,848)
Unrealized loss on short-term investments . . . . .	—	—	—	(61)	—	—	(61)	(61)
<b>Balance at December 31, 2002</b> . . .	12,203,298	15	60,352	24	(9,848)	(20,233)	30,310	(2,909)
Stock options exercised under employee stock option plans . . . .	68,058	—	165	—	—	—	165	—
Shares purchased under employee stock purchase plan . . . . .	12,122	—	31	—	—	—	31	—
Compensation expense related to options issued to non-employees	—	—	33	—	—	—	33	—
Amortization of deferred compensation . . . . .	—	—	2	—	—	—	2	—
Net loss . . . . .	—	—	—	—	(10,407)	—	(10,407)	(10,407)
Unrealized loss on short-term investments . . . . .	—	—	—	(22)	—	—	(22)	(22)
<b>Balance at December 31, 2003</b> . . .	12,283,478	15	60,583	2	(20,255)	(20,233)	20,112	(10,429)
Stock options exercised under employee stock option plans . . . .	159,388	—	594	—	—	—	594	—
Shares purchased under employee stock purchase plan . . . . .	12,786	—	56	—	—	—	56	—
Compensation expense related to options issued to non-employees	—	—	135	—	—	—	135	—
Net loss . . . . .	—	—	—	—	(4,065)	—	(4,065)	(4,065)
Unrealized loss on short-term investments . . . . .	—	—	—	(10)	—	—	(10)	(10)
<b>Balance at December 31, 2004</b> . . .	<u>12,455,652</u>	<u>\$15</u>	<u>\$61,368</u>	<u>\$ (8)</u>	<u>\$(24,320)</u>	<u>\$(20,233)</u>	<u>\$ 16,822</u>	<u>\$ (4,075)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**MICRO LINEAR CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31,		
	2004	2003	2002
	(In thousands)		
Operating activities:			
Net loss	\$(4,065)	\$(10,407)	\$(2,848)
Adjustments to reconcile net loss to net cash provided by operating activities:			
Gain on sale of building	(1,138)	—	—
Depreciation and amortization	569	902	2,139
Provision for doubtful accounts	109	2	—
Asset impairment and restructuring	41	1,873	377
Provision for excess inventory	429	75	649
Compensation expense related to options issued to non-employees	135	33	—
Amortization of deferred compensation	—	2	121
Changes in assets and liabilities:			
Accounts receivable	(2,050)	76	286
Inventories	184	(246)	771
Other assets	351	1,609	(850)
Accounts payable	(1,183)	607	(285)
Accrued compensation, accrued commissions and other accrued liabilities	146	(366)	(1,623)
Deferred revenue	(187)	(1,364)	(843)
Net cash used in operating activities	<u>(6,659)</u>	<u>(7,204)</u>	<u>(2,106)</u>
Investing activities:			
Purchases of property and equipment	(560)	(543)	(282)
Proceeds from sale of land and buildings	6,530	—	—
Purchases of short-term investments	(8,577)	(11,702)	(17,012)
Proceeds from sales and maturities of short-term investments	12,873	17,418	15,265
Net cash provided by (used in) investing activities	<u>10,266</u>	<u>5,173</u>	<u>(2,029)</u>
Financing activities:			
Principal payments on debt	(2,040)	(263)	(244)
Proceeds from issuance of common stock	650	196	292
Net cash provided by (used in) financing activities	<u>(1,390)</u>	<u>(67)</u>	<u>48</u>
Net increase (decrease) in cash and cash equivalents	2,217	(2,098)	(4,087)
Cash and cash equivalents at beginning of year	8,703	10,801	14,888
Cash and cash equivalents at end of year	<u>\$10,920</u>	<u>\$ 8,703</u>	<u>\$10,801</u>
Supplemental disclosure of cash paid during the year for:			
Interest	\$ 98	\$ 166	\$ 185
Income taxes, net of refunds	\$ 11	\$ (1,368)	\$ (3,508)

The accompanying notes are an integral part of these consolidated financial statements.



**MICRO LINEAR CORPORATION**  
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**1. Organization and Summary of Significant Accounting Policies**

***Organization***

Micro Linear Corporation is a fabless semiconductor company specializing in wireless integrated circuit solutions, which enable a variety of wireless products serving a global market. These transceivers can be used in many streaming wireless applications such as cordless phones, PHS handsets, wireless speakers and headphones, security cameras, game controllers, cordless headsets and other personal electronic appliances. Headquartered in San Jose, California, Micro Linear's products are available through its authorized representatives and distributors worldwide.

***Fiscal Year***

We report results of operations on the basis of fifty-two or fifty-three week periods, ending on the Sunday closest to December 31. Fiscal years 2004, 2003, and 2002 ended on January 2, 2005, December 28, 2003, and December 29, 2002 respectively. Fiscal year 2004 was comprised of fifty-three weeks, while fiscal years 2002 and 2001 were comprised of fifty-two weeks. For presentation purposes, the accompanying financial statements refer to the calendar year end of each respective year.

***Principles of Consolidation***

The consolidated financial statements include the accounts of Micro Linear Corporation and our subsidiary in the United Kingdom. All significant inter-company accounts and transactions have been eliminated.

The Company has designated the U.S. dollar as the functional currency for its United Kingdom subsidiary since that subsidiary is dependent on the parent company's economic environment. The gains and losses resulting from the transactions of the United Kingdom subsidiary are recorded as other income and expense. For fiscal years 2004, 2003, and 2002 transaction gains and losses were not significant.

***Use of Estimates***

The preparation of financial statements in conformity with generally accepted accounting principles in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements as well as the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates, and such differences may be material to the financial statements.

***Reclassifications***

Certain prior year amounts in the consolidated financial statements have been reclassified where necessary to conform to the presentation for the year ended December 31, 2004. Such reclassifications had no affect on previously reported results of operations or retained earnings.

***Revenue Recognition and Deferred Income***

We recognize revenue from product shipped directly to OEM customers at the time of shipment, provided that we have received a signed purchase order, the price is fixed or determinable, title has transferred, and collection of the resulting receivable is reasonably assured. Sales to our OEM customers are made without a privilege of return and revenue on these sales is recognized upon shipment. We defer recognition of revenue from sale of our products to distributors under agreements which allow certain rights of return and price adjustments on unsold inventory. The associated cost of product on these sales to distributors is deferred to inventory. Revenue and cost of product is recognized when the distributor resells the product to its customers.

## MICRO LINEAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Some sales to distributors are below contract pricing and are not guaranteed price protection or return privileges. Such sales are recognized as revenue upon shipment.

#### *Research and Development*

We expense the cost of research and development as incurred. Research and development expenses principally consist of payroll and related costs and the cost of prototypes.

#### *Concentration of Credit Risk and Foreign Sales*

Financial instruments that potentially subject us to significant concentrations of credit risk consist principally of cash equivalents, short-term investments and trade accounts receivable.

As of December 31, 2004, our investment portfolio consisted of U.S. government obligations, commercial paper and money market funds, typically with maturities of less than 12 months. Some of these securities are subject to interest rate risk, and will decline in value if market interest rates increase. Historically we have not incurred significant changes due to the impact from interest rate changes on income or cash flows.

Our sale and purchase transactions are denominated in U.S. dollars. We primarily sell our products to original equipment manufacturers and distributors. We believe that our evaluation process, relatively short collection terms and the high level of creditworthiness of our customers substantially mitigate the concentration of credit risk in our trade accounts receivable. We perform ongoing credit evaluations of our customers' financial condition and limit the amount of credit extended when deemed necessary, but generally require no collateral. Allowances for potential credit losses are established based on management's review of individual accounts.

In fiscal year 2004 two customers, Uniden and Giant Electronics Limited (a Plantronics subcontractor), accounted for 10% or more of our net revenue, comprising 55% and 10% of our net revenue, respectively. In fiscal years 2003 and 2002, one customer, Uniden Corporation, accounted for more than 10% of net revenue, comprising 56% of our net revenue in both years. Sales to foreign customers represented approximately 94%, 91%, and 89% of net revenue for fiscal years 2004, 2003 and 2002, respectively. These sales were principally to customers in Asia and Europe. We maintain reserves for potential credit losses, and historically such losses have been within management's expectations.

At December 31, 2004, receivables from three customers accounted for 45%, 22% and 12% of total receivables, respectively. At December 31, 2003 receivables from three customers accounted for 21%, 14% and 11% of total receivables, respectively.

#### *Cash and Cash Equivalents*

We consider all short-term, highly liquid investments with maturities of three months or less at the date of acquisition to be cash equivalents.

#### *Short-Term Investments*

We account for investments in accordance with Statement of Financial Accounting Standards No. 115, "Accounting for Certain Investments in Debt and Equity Securities."

We invest in U.S. government obligations, commercial paper and money market funds that mature in one year or less. All securities are classified as available-for-sale and are recorded at fair value. Unrealized holding gains and losses are recorded as a separate component of other comprehensive income or loss within the shareholders' equity. Unrealized gains (losses) for the years ended December 31, 2004, 2003, and 2002 amounted to (\$10,000), (\$22,000), and \$61,000 respectively. Realized gains and losses and declines in value judged to be other than temporary on available-for-sale securities are included in interest and other income or

## MICRO LINEAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

interest expense, as appropriate. The cost of securities sold is based on the specific identification method. Interest and dividends on securities classified as available-for-sale are included in interest and other income.

#### *Fair Value of Financial Instruments*

Our financial instruments, including cash and cash equivalents, short-term investments, accounts receivable, accounts payable, accrued liabilities and certain other long-term assets, approximate their fair values due to the short maturity of these instruments. We do not hold or issue financial instruments for trading purposes.

#### *Inventories*

We value inventories at the lower of standard cost or market. Standard costs are periodically adjusted to approximate actual costs on a first-in, first-out basis. The value of inventories is reduced by an estimated allowance for excess and obsolete inventories. This allowance for excess and obsolete inventories is based upon our review of demand for products in light of projected sales, current market conditions, and market trends, and permanently reduces the cost basis of the underlying inventory.

#### *Property, Plant and Equipment*

Property, plant and equipment are recorded at cost less accumulated depreciation. Depreciation for financial reporting purposes is provided on the straight-line basis over the estimated useful lives of the related assets, generally three to five years. Leasehold improvements are amortized over the shorter of the estimated useful life or the remaining term of the lease. Repair and maintenance costs are charged to expense as incurred.

When property and equipment is sold or scrapped, the cost of the asset and the related accumulated depreciation or amortization is removed from the accounts and the resulting gain or loss, if any, is included in other income or expense.

#### *Net Income (Loss) Per Share*

Basic earnings (loss) per share is computed by dividing net income (loss) available to common stockholders by the weighted average number of common shares outstanding during the period. Diluted earnings (loss) per share exclude potential common stock if the effect is anti-dilutive. Diluted net earnings (loss) per share include the effect of all potentially dilutive common stock outstanding during the period. We compute diluted earnings (loss) per share using the treasury stock method for stock options outstanding.

#### *Long-lived Assets*

We evaluate the carrying value of long-lived assets in accordance with Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144), which requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the book value of the asset may not be recoverable. In the third quarter of 2003, we completed an impairment review of our land and buildings. The review was undertaken due to continued weakness in the commercial real estate markets, local vacancy rates and recent real estate transactions in our local market. Upon completion of our review, we determined that the carrying values of these assets exceeded their future undiscounted cash flows. Accordingly, we recorded an impairment loss of \$1.5 million to write down the assets to their current estimated market value. In July 2004, we sold our San Jose facilities for approximately \$7.0 million. We recognized a gain on the sale of approximately \$1.1 million and the sale generated cash of approximately \$4.6 million, net of a \$1.9 million mortgage payoff and \$0.5 million of closing

## MICRO LINEAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

costs. In fiscal year 2002, we wrote down \$0.4 of impaired capitalized software primarily due to the discontinuation of the 802.11a broadband wireless program.

#### *Advertising Costs*

Advertising costs are expensed as incurred. Advertising costs were not material in 2004, 2003 and 2002, respectively.

#### *Shipping and Handling Costs*

Shipping and handling costs are included in costs of goods sold.

#### *Stock-Based Compensation*

We account for our employee stock option plans in accordance with Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees." Under APB No. 25, compensation cost is measured as the excess, if any, of the quoted market price of our stock at the date of grant over the exercise price of the option granted. Compensation cost for stock options, if any, is recognized ratably over the vesting period. We provide additional pro forma disclosures as required under SFAS No. 123, "Accounting for Stock-Based Compensation" and SFAS No. 148, "Accounting for Stock-Based Compensation, Transition and Disclosure".

We account for stock issued to non-employees in accordance with the provisions of SFAS 123. Stock option awards issued to non-employees are accounted for at fair value using the Black-Scholes option-pricing model. The fair value of each non-employee stock award is remeasured at each period end until a commitment date is reached, which is generally the vesting date.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment," an amendment to Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation" and Statement on Financial Accounting Standards No. 95, "Statement of Cash Flows." The revised standard addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS No. 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, companies to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS No. 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. Currently, we disclose the pro forma net income (loss) and related pro forma income (loss) per share information in accordance with SFAS 123 and Statement on Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation Costs — Transition and Disclosure." We believe that adoption of the new standard will have an adverse impact on our results of operations.

#### *Pro Forma Net Income (Loss)*

As required by SFAS No. 123 and SFAS No. 148, we disclose our pro forma net income (loss) as if we had accounted for our employee stock purchase plan, employee stock options and director stock options subsequent to December 31, 1994 under the fair value method of SFAS No. 123. We estimate the fair value

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

for these options at the date of grant using the Black-Scholes option pricing model and the multiple option approach with the following weighted-average assumptions:

	Employee Stock Purchase Plan			Stock Option Plans		
	2004	2003	2002	2004	2003	2002
Expected life (in years) .....	0.5	0.5	0.5	2.3	2.6	2.3
Risk-free interest rate .....	1.40%	1.09%	1.45%	2.22%	2.60%	1.55%
Volatility .....	54%	63%	80%	58%	63%	85%
Dividend yield .....	—	—	—	—	—	—

The Black-Scholes option valuation model is intended for use in estimating the fair value of publicly traded options that have no vesting restrictions and are fully transferable, which differs significantly from the terms of our stock option awards. In addition, option valuation models require the input of highly subjective assumptions, including the expected stock price volatility and the expected life of the options before exercise, which greatly affect the calculated grant date fair value. The weighted average estimated fair values of shares issued under the Employee Stock Purchase Plan granted during 2004, 2003 and 2002 were \$1.65, \$0.99 and \$1.09 respectively. The weighted average fair values of options granted under the employee and directors' stock option plans during fiscal years 2004, 2003 and 2002 were \$2.04, \$1.26 and \$1.29 respectively.

The following table illustrates the effect on our net income (loss) and net income (loss) per share if we had recorded compensation costs based on the estimated grant date fair value as defined by SFAS No. 123 for all granted stock-based awards.

	Years Ended December 31,		
	2004	2003	2002
	(In thousands, except per share amounts)		
Net loss, as reported .....	\$(4,065)	\$(10,407)	\$(2,848)
Add: Stock-based employee compensation expense included in reported net loss .....	0	2	121
Deduct: Stock-based compensation expense determined under fair value based method for employee awards .....	(1,073)	(973)	(2,063)
Pro forma net loss .....	<u>\$(5,138)</u>	<u>\$(11,378)</u>	<u>\$(4,790)</u>
Pro forma net loss per share:			
Basic .....	\$ (0.41)	\$ (0.93)	\$ (0.40)
Diluted .....	\$ (0.41)	\$ (0.93)	\$ (0.40)
Reported net loss per share:			
Basic .....	\$ (0.33)	\$ (0.85)	\$ (0.24)
Diluted .....	\$ (0.33)	\$ (0.85)	\$ (0.24)

### Comprehensive Income (Loss)

Comprehensive income (loss) is defined as the change in equity of a company during a period from transactions and other events and circumstances, including transactions resulting from investments by owners and distributions to owners, and is to include unrealized gains and losses that historically have been excluded from net income (loss) and reflected instead in equity. For all periods presented, the primary differences between our net loss and comprehensive loss arise from unrealized gains and losses on our short-term investments.

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

### *Recent Accounting Pronouncements*

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 123R ("SFAS No. 123R"), "Share-Based Payment," an amendment to Statement of Financial Accounting Standards No. 123 ("SFAS No. 123"), "Accounting for Stock-Based Compensation" and Statement on Financial Accounting Standards No. 95, "Statement of Cash Flows." The revised standard addresses the accounting for share-based payment transactions in which a company receives employee services in exchange for either equity instruments of the company or liabilities that are based on the fair value of the company's equity instruments or that may be settled by the issuance of such equity instruments. Under the new standard, companies will no longer be able to account for share-based compensation transactions using the intrinsic method in accordance with APB 25. Instead, companies will be required to account for such transactions using a fair-value method and recognize the expense in the consolidated statement of income. SFAS No. 123R will be effective for periods beginning after June 15, 2005 and allows, but does not require, companies to restate the full fiscal year of 2005 to reflect the impact of expensing share-based payments under SFAS No. 123R. The Company has not yet determined which fair-value method and transitional provision it will follow. Currently, we disclose the pro forma net income (loss) and related pro forma income (loss) per share information in accordance with SFAS 123 and Statement on Financial Accounting Standards No. 148, "Accounting for Stock-Based Compensation Costs — Transition and Disclosure." We believe that adoption of the new standard will have an adverse impact on our results of operations.

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151 ("SFAS No. 151"), "Inventory Costs, an amendment of ARB No. 43, Chapter 4". SFAS No. 151 clarifies that abnormal inventory costs such as costs of idle facilities, excess freight and handling costs, and wasted materials (spoilage) are required to be recognized as current period charges. SFAS No. 151 will be effective in fiscal years beginning after June 15, 2005. The adoption of SFAS No. 151 is not expected to have a material effect on our financial position or results of operations.

In December 2004, the FASB issued Statement of Financial Accounting Standards No. 153 ("SFAS No. 153"), "Exchange of Nonmonetary Assets, an amendment of APB Opinion No. 29". SFAS No. 153 addresses the measurement of exchanges of nonmonetary assets and redefines the scope of transactions that should be measured based on the fair value of the assets exchanged. SFAS No. 153 will be effective for nonmonetary transactions in fiscal years beginning after June 15, 2005. The adoption of SFAS No. 153 is not expected to have a material effect on our financial position or results of operations.

## 2. Composition of Certain Financial Statement Captions

Inventories consist of the following (in thousands):

	December 31,	
	2004	2003
Work-in-process .....	\$ 677	\$1,024
Finished goods .....	954	739
Inventory held by distributors .....	139	620
Total inventories .....	<u>\$1,770</u>	<u>\$2,383</u>

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Property, plant and equipment consist of the following (in thousands):

	December 31,	
	2004	2003
Land .....	\$ —	\$ 2,250
Buildings and improvements .....	—	7,990
Machinery and equipment .....	5,786	11,703
	5,786	21,943
Accumulated depreciation and amortization .....	(5,327)	(16,083)
Net property, plant and equipment .....	<u>\$ 459</u>	<u>\$ 5,860</u>

Depreciation and amortization expense was \$569,000, \$902,000 and \$2,139,000 in fiscal years 2004, 2002, and 2002 respectively. Depreciation and amortization are less in 2004 than in prior years because we sold our buildings in July 2004. In addition, we disposed of some fully-depreciated furniture and equipment that was primarily related to the sale of the buildings.

Other accrued liabilities consist of the following (in thousands):

	December 31,	
	2004	2003
Accrued audit fees .....	\$ 190	\$ 91
Legal and associated .....	171	270
Accrued commissions .....	80	127
Other accrued taxes .....	363	365
Restructuring .....	149	26
Inventory rework reserve .....	—	100
Other accrued liabilities .....	168	206
Total other accrued liabilities .....	<u>\$1,121</u>	<u>\$1,185</u>

### 3. Fixed Asset Impairment, Restructuring Charges and Sale of Land and Buildings

In the third quarter of 2003, we completed an impairment review of our land and buildings. The review was undertaken due to an unsolicited offer to purchase our facilities, continued weakness in the commercial real estate markets, local vacancy rates and recent real estate transactions in our local market. Upon completion of our review, we determined that the carrying values of these assets exceeded their future undiscounted cash flows. Accordingly, we recorded an impairment loss of \$1.5 million to write down the assets to their current estimated market value.

In July 2004, we sold our San Jose facilities for approximately \$7.0 million. We recognized a gain on the sale of approximately \$1.1 million and the sale generated cash of approximately \$4.6 million, net of a \$1.9 million mortgage payoff and \$0.5 million of closing costs.

In the second quarter of 2003, we announced a restructuring plan to better align our organizational structure with current business conditions. This realignment process included workforce reductions across all functions of the Company's operations and a consolidation of our design centers into our San Jose facility. The activity in our restructuring reserve, consisting of restructuring charges and related utilization, for the fiscal year ended December 31, 2004 is shown in the table below. In 2004 we provided \$0.2 million for our remaining lease obligations, net of expected sublease payments, on our Utah facility which we vacated in the first quarter of 2004. When these facilities were vacated, the related accrued rent was reclassified to our

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

restructuring reserves. The remaining balance of the reserve relates to our continuing charges for rent and leased equipment obligations.

	Severance and Benefits	Excess Facilities (In thousands)	Total
Balance, December 31, 2002 .....	\$ —	\$ —	\$ —
Additional provisions .....	689	373	1,062
Utilizations .....	<u>(663)</u>	<u>(373)</u>	<u>(1,036)</u>
Balance, December 31, 2003 .....	26	—	26
Additional provisions .....	—	166	166
Reclassification .....	—	82	82
Utilizations .....	<u>(26)</u>	<u>(99)</u>	<u>(125)</u>
Balance, December 31, 2004 .....	<u>\$ 0</u>	<u>\$ 149</u>	<u>\$ 149</u>

We recorded restructuring charges in 2003 of approximately \$1.0 million, consisting primarily of employee severance and related termination costs of \$0.6 million and a fixed asset impairment charge of \$0.4 million for assets to be disposed of due to headcount reductions and vacating facilities. We did not maintain any restructuring reserves at the beginning of 2003 but had a \$26,000 ending reserve balance to provide for employee severance costs that had been incurred but not paid during 2003.

During 2002 we recognized \$0.4 million in asset impairment charges relating to capitalized software that was purchased specifically for our 802.11a development project that was cancelled in October 2002.

### 4. Net Income (Loss) Per Share

Following is a reconciliation of the basic and diluted loss per share computations (in thousands, except per share amounts):

	Year Ended December 31,		
	2004	2003	2002
Basic:			
Net loss .....	\$ (4,065)	\$ (10,407)	\$ (2,848)
Weighted average common shares outstanding .....	<u>12,400</u>	<u>12,231</u>	<u>12,088</u>
Basic loss per share .....	<u>\$ (0.33)</u>	<u>\$ (0.85)</u>	<u>\$ (0.24)</u>
Diluted:			
Net loss .....	\$ (4,065)	\$ (10,407)	\$ (2,848)
Weighted average common shares outstanding .....	12,400	12,231	12,088
Dilutive stock options .....	—	—	—
Weighted average common shares outstanding .....	<u>12,400</u>	<u>12,231</u>	<u>12,088</u>
Diluted loss per share .....	<u>\$ (0.33)</u>	<u>\$ (0.85)</u>	<u>\$ (0.24)</u>

Options to purchase 3,952,924, 3,956,332, and 3,849,540 shares of common stock at weighted average exercise prices of \$4.11, \$3.79, and \$4.08 per share were outstanding during 2004, 2003, and 2002 respectively, but were not included in the respective computation of diluted loss per share because such options were anti-dilutive. These options expire periodically from 2005 through 2014.



## MICRO LINEAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

#### 5. Stockholders' Equity

##### *Preferred Stock*

The Board of Directors has the authority, without any further vote or action by the stockholders, to provide for the issuance of up to 5,000,000 shares of preferred stock in one or more series with such designations, rights, preferences and limitations as the Board of Directors may determine, including the consideration received for the stock, the number of shares comprising each series, dividend rates, redemption provisions, liquidation preferences, sinking fund provisions, conversion rights and voting rights. In August 1998, the Board of Directors designated 30,000 shares of Preferred Stock as Series A Participating Preferred Stock in connection with the adoption of a shareholders rights program. The issuance of Preferred Stock may have the effect of delaying, deferring or preventing a change in control of Micro Linear. No such preferred stock was issued or outstanding anytime during fiscal years 2004, 2003, and 2002.

##### *Shareholder Rights Plan*

In August 1998, we implemented a plan to protect shareholders' rights in the event of a proposed takeover of Micro Linear. Under the plan, each share of our outstanding common stock carries one right to purchase one-thousandth of a share of Series A Participating Preferred Stock (the "Right") at an exercise price of \$30.00 per Right. The Rights are redeemable by Micro Linear at \$0.01 per Right at any time on or before the tenth day following acquisition by a person or group of 15% or more of our common stock. Ten days after a person or group acquires 15% or more of our common stock, each unredeemed Right not owned by a holder of 15% or more of the common stock (or an affiliate of such holder) will entitle the holder to purchase shares of Micro Linear common stock having a market value of \$60.00. The Rights expire in August 2008.

##### *Common Stock*

Holders of common stock are entitled to receive dividends as declared by the Board of Directors out of legally available funds. No dividends have been declared or paid during fiscal years 2004, 2003 and 2002.

##### *Stock Option Plans*

In August 1992, we adopted the 1991 Stock Option Plan (the "1991 Plan"), under which employees and consultants may be granted incentive stock options to purchase shares of Micro Linear's common stock at not less than the fair value on the date of grant, or nonstatutory stock options to purchase common stock at not less than 85% of the fair value on the date of grant. To date, no stock options have been granted with an exercise price less than the fair value on the date of grant.

In May 1997, the Board of Directors and stockholders approved an amendment to the 1991 Plan to provide for an annual increase in the number of shares of common stock reserved for issuance under the Plan equal to 4% of fully diluted shares for a two-year period commencing on January 1, 1998. The number of shares reserved increased by 588,720 and 575,885 in fiscal years 1999 and 1998, respectively. At the Annual Meeting of Stockholders on August 9, 2001, stockholders approved an amendment to the 1991 Stock Option Plan to extend the term of the plan by ten years, to May 22, 2011. We have reserved 5,028,605 shares for issuance under the terms of the 1991 Plan at December 31, 2004.

In March 1998, we adopted the 1998 Nonstatutory Stock Option Plan (the "1998 Plan"), under which employees, directors and consultants may be granted nonstatutory stock options to purchase shares of Micro Linear common stock. Executive officers may only receive options under the 1998 Plan as an inducement essential to their initial employment. We initially reserved 600,000 shares for issuance under the terms of the 1998 Plan.

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

In January 1999, the Board of Directors amended the 1998 Plan and approved an increase in the shares reserved for option grants under the 1998 Plan from 600,000 to 1,000,000 shares. In February 2000, the Board of Directors amended the 1998 Plan and approved an increase in the shares reserved for option grants under the 1998 Plan from 1,000,000 to 1,500,000 shares. Between May and July of 2002, the Board of Directors amended the 1998 Plan and approved increases in the shares reserved for option grants under the 1998 Plan totaling 565,794 shares. We have reserved 2,065,794 shares for issuance under the terms of the 1998 Plan at December 31, 2004.

Through fiscal year 2002, our standard stock option agreements under the 1991 and 1998 Plans provided that 25% of the stock subject to the option will vest upon each of the first and second anniversaries from the vesting commencement date, and the remainder of the shares subject to the option will vest monthly over the next two years. Beginning with our 2003 fiscal year, our standard stock option agreements under the 1991 and 1998 Plans provide that 25% of the stock subject to the option will vest upon the first anniversary from the vesting commencement date, and the remainder of the shares subject to the option will vest monthly over the next three years. Generally, the terms of these plans provide that options expire ten years from the date of grant.

Activity and price information regarding the 1991 and 1998 plans are as follows:

	Available for Grant	Outstanding Options	
		Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2001 .....	1,352,842	3,532,552	4.38
Options authorized .....	565,794	—	—
Options granted .....	(1,579,000)	1,579,000	3.36
Options exercised .....	—	(111,203)	2.14
Options canceled .....	<u>1,423,761</u>	<u>(1,423,809)</u>	<u>4.51</u>
Balance at December 31, 2002 .....	1,763,397	3,576,540	3.99
Options granted .....	(1,024,000)	1,024,000	3.17
Options exercised .....	—	(58,058)	2.35
Options canceled .....	<u>848,150</u>	<u>(848,150)</u>	<u>4.23</u>
Balance at December 31, 2003 .....	1,587,547	3,694,332	3.74
Options granted .....	(279,000)	279,000	6.06
Options exercised .....	—	(159,388)	3.73
Options canceled .....	<u>173,020</u>	<u>(173,020)</u>	<u>3.57</u>
Balance at December 31, 2004 .....	<u>1,481,567</u>	<u>3,640,924</u>	<u>4.04</u>

In June 2000, we granted stock options to three employees with an exercise price of \$2.06 per share, which was below the fair market value of the common stock at the date of grant. We recorded deferred compensation of approximately \$1.5 million in accordance with APB No. 25, to be amortized over the related 24-month vesting period. We adjusted the deferred compensation balance downward by \$450,000 when one of the three employees left Micro Linear during 2001. Compensation expense was \$0 in fiscal years 2004 and 2003, and amounted to \$100,000 in fiscal year 2002.

In January 2002, the Board of Directors granted Timothy Richardson an option to purchase 10,000 shares of Common Stock, in recognition of his efforts to hire the Vice President of our Salt Lake City Design Center. The shares subject to this option have an exercise price equal to the fair market value of our Common Stock on the date of grant, and vest over a three-year period. In accordance with SFAS 123, we recognized compensation expense pertaining to this award of \$9,000 during 2002. The company remeasured the unvested

## MICRO LINEAR CORPORATION

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

portion of the award as of the date of Mr. Richardson's appointment as CEO, which did not result in additional expense in accordance with APB 25.

In October 2003, we granted stock options to four non-employee members of our Technical Advisory Board and recognized \$19,000 of stock compensation expense. In addition, we recognized \$14,000 of stock compensation expense during fiscal 2003 related to stock options held by a former employee who is now serving on our Technical Advisory Board. In 2004, we granted stock options to five non-employee members of our Technical Advisory Board, for which we recognized \$87,000 of stock compensation expense. In addition, we recognized \$48,000 of stock compensation expense during fiscal 2004 related to stock options held by former employees now serving on our Technical Advisory Board.

#### *Director Stock Option Plan*

The Director Stock Option Plan (the Director Plan) was adopted by shareholders in October 1994. Under the Director Plan, we initially reserved 80,000 shares of common stock at an exercise price equal to the fair market value of the common stock on the date of grant. The Director Plan provides that each person who was an outside director on October 13, 1994, and each outside director who subsequently becomes a member of the Board of Directors, shall be automatically granted an option to purchase 10,000 shares on the date on which such person first becomes an outside director, whether through election by the stockholders or appointment by the Board of Directors to fill a vacancy. In addition, each outside director was to automatically receive a nonstatutory option to purchase 7,000 shares of common stock upon such director's annual re-election to the Board, provided the director had been a member of the Board of Directors for at least six months upon the date of re-election.

At their annual meeting in June 1998, the stockholders approved an amendment to the Director Plan, which increased from 80,000 to 180,000 the number of shares available for grants.

At their annual meeting in June 2000, the stockholders approved an amendment to the Director Plan which: 1) increased the shares available for grant from 180,000 to 680,000, 2) increased the option grant to each outside director who subsequently becomes a member of the Board of Directors from 10,000 to 50,000 shares on the date on which such person first becomes an outside director, whether through election by stockholders or by appointment by the Board of Directors, and 3) increased the option grant from 7,000 to 10,000 shares to each outside director upon the director's annual re-election by the Board of Directors, provided the director has been a member of the Board of Directors for at least six months upon the date of re-election.

The 50,000 share grant vests at the rate of 25% of the option shares upon the first and second anniversaries of the date of grant and 1/48th of the option shares per month thereafter, and the 10,000 share grant vests monthly over a twelve-month period, in each case unless cancelled sooner upon termination of the optionee's status as a director or otherwise pursuant to the Director Plan.

The 1994 Director Plan expired on August 2, 2004.

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Option activity under the Directors' Plan is as follows:

	Available for Grant	Options Outstanding Number of Shares	Weighted Average Exercise Price
Balance at December 31, 2001 .....	446,083	202,000	6.08
Granted .....	(90,000)	90,000	2.96
Balance at December 31, 2002 .....	356,083	292,000	5.12
Granted .....	(40,000)	40,000	3.05
Exercised .....	—	(10,000)	2.85
Cancelled .....	60,000	(60,000)	6.38
Balance at December 31, 2003 .....	376,083	262,000	4.60
Granted .....	(50,000)	50,000	6.67
Expired .....	(326,083)	—	—
Balance at December 31, 2004 .....	—	312,000	4.93

The following table summarizes information about all stock options at December 31, 2004:

Range of Exercise Prices	Options Outstanding			Options Exercisable	
	Number Outstanding at December 31, 2004	Weighted-Average Remaining Contractual Life (Years)	Weighted-Average Exercise Price	Number Exercisable at December 31, 2004	Weighted-Average Exercise Price
\$2.15 - \$3.00 .....	631,678	7.13	\$2.69	524,230	\$ 2.69
\$3.05 - \$3.05 .....	627,010	8.35	\$3.05	273,954	\$ 3.05
\$3.12 - \$3.53 .....	802,700	7.23	\$3.40	509,802	\$ 3.40
\$3.60 - \$4.37 .....	932,379	5.26	\$4.04	870,001	\$ 4.08
\$4.44 - \$6.50 .....	675,657	6.81	\$6.03	461,758	\$ 6.04
\$6.67 - \$8.62 .....	283,500	5.50	\$7.23	222,666	\$ 7.37
	<u>3,952,924</u>	6.73	\$4.11	<u>2,862,411</u>	\$4.181

### Employee Stock Purchase Plan

We adopted our current Employee Stock Purchase Plan (the "1998 Purchase Plan") in September 1998. An aggregate of 200,000 shares of common stock were initially reserved for issuance under the Purchase Plan. The Purchase Plan provides that all employees may purchase common stock on specified dates via payroll deductions, at 85% of its fair market value on the Enrollment Date or the Exercise Date, whichever is lower. Sales under the 1998 Purchase Plan in fiscal years 2004, 2003 and 2002 were 12,786, 12,122 and 22,023 shares of common stock, with a total purchase price of approximately \$55,633, \$30,456 and \$54,150, respectively. The Plan provides for an annual increase in the shares available for purchase equal to a) the lesser of the number of shares of Common Stock repurchased by Micro Linear during the prior year or b) the number of shares of Common Stock issued under the Plan in the prior year, or c) a lesser amount determined by the Board. As of December 31, 2004, there were 113,016 shares available for purchase under the 1998 Purchase Plan.

### 6. 401(k) Tax Deferred Savings Plan

We have a 401(k) Tax Deferred Savings Plan (the Plan) that allows eligible employees to contribute from 1% to 15% of their pre-tax salary up to a maximum of \$13,000 for employees age 49 and under and

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$16,000 for employees over age 50 during 2004. Effective October 27, 1997, the Plan was amended to provide for a discretionary matching contribution up to \$80 per pay period to all employees contributing to the Plan. Company contributions to the Plan were approximately \$94,000, \$104,000 and \$156,000 in fiscal years 2004, 2003 and 2002, respectively.

### 7. Income Taxes

The components of the provisions (benefit) for income taxes are as follows (in thousands):

	December 31,		
	2004	2003	2002
Current:			
Federal .....	\$—	\$—	\$(5,285)
State .....	17	18	20
Foreign .....	7	60	157
	<u>24</u>	<u>78</u>	<u>\$(5,108)</u>
Deferred:			
Federal .....	—	—	—
State .....	—	—	—
	<u>—</u>	<u>—</u>	<u>—</u>
Provision (benefit) for taxes on income .....	<u>\$24</u>	<u>\$78</u>	<u>\$(5,108)</u>

The difference between the provision (benefit) for taxes and the amount computed by applying the federal statutory income tax rate to income (loss) before provision (benefit) for taxes is explained below (in thousands):

	December 31,		
	2004	2003	2002
Tax at federal statutory rate .....	\$(1,382)	\$(3,512)	\$(2,705)
State tax, net of federal benefit .....	(310)	72	(238)
Utilization of losses on carryback claim .....	—	—	(1,228)
Other .....	23	(878)	329
Increase (decrease) in valuation allowance .....	<u>1,693</u>	<u>4,396</u>	<u>(1,266)</u>
Provision (benefit) for taxes .....	<u>\$ 24</u>	<u>\$ 78</u>	<u>\$(5,108)</u>

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Significant components of our deferred tax assets and liabilities are as follows (in thousands):

	December 31,		
	2004	2003	2002
Deferred tax assets:			
Depreciation and amortization .....	\$ (113)	\$ 5	\$ 468
Deferred revenue .....	136	272	940
Other accruals and reserves .....	1,046	2,405	2,103
Other deferred tax assets .....	1,709	408	91
NOL carryforwards .....	13,127	11,210	6,300
Total gross deferred tax assets .....	15,905	14,300	9,902
Less: valuation allowance .....	(15,905)	(14,300)	(9,902)
Net deferred tax assets .....	<u>\$ —</u>	<u>\$ —</u>	<u>\$ —</u>

We have established a valuation allowance as management has determined that it is more likely than not that deferred tax assets will not be realized.

As of December 31, 2004, we had federal and state net operating loss carryforwards of approximately \$35.1 million and \$20.4 million, respectively, to offset future taxable income. In addition, we had federal and state credit carryforwards of approximately \$1,000,000 and \$1,072,000 available to offset future liabilities. Our net operating loss carryforwards, as well as credit carryforwards, will expire at various dates beginning in 2006 through 2023, if not utilized.

The Tax Reform Act of 1986 limits the use of net operating loss and tax credit carryforwards in certain situations where changes occur in the stock ownership of a company. In the event of a change in ownership, utilization of the carryforwards could be restricted.

### 8. Operations by Geographic Regions

Micro Linear develops integrated circuits and modules that enable cost effective, high performance digital wireless communications and connectivity for a broad range of voice and data applications. As of December 31, 2004, Micro Linear is organized as one business segment.

The following is a summary of operations by geographical regions (in thousands):

	Year Ended December 31,		
	2004	2003	2002
Net revenue:			
United States .....	\$ 1,150	\$ 1,839	\$ 3,294
Japan .....	11,745	11,922	16,064
Hong Kong .....	4,798	2,140	—
Other Asia .....	824	1,562	5,421
Europe .....	1,988	3,037	3,740
Other .....	132	196	181
Consolidated .....	<u>\$20,637</u>	<u>\$20,696</u>	<u>\$28,700</u>

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

	As of December 31,	
	2004	2003
Long-lived assets:		
United States .....	\$458	\$5,858
Asia .....	<u>1</u>	<u>2</u>
Consolidated .....	<u>\$459</u>	<u>\$5,860</u>
Capital expenditures:		
United States .....	\$560	\$ 543
Consolidated .....	<u>\$560</u>	<u>\$ 543</u>
Depreciation and amortization:		
United States .....	\$569	\$ 856
Europe .....	<u>—</u>	<u>46</u>
Consolidated .....	<u>\$569</u>	<u>\$ 902</u>

### 9. Related Party Transactions

In May 2002, Timothy Richardson, who has been a member of our Board of Directors since March 2000, was elected as our President and Chief Executive Officer. We extended a bridge loan to Mr. Richardson in June 2002, to assist him in purchasing a home in California pending the sale of his existing residence. The \$450,000 loan was secured by a first mortgage on Mr. Richardson's home in Georgia. The loan was for a six-month term and bore interest at a rate of 4.75% per year. In 2002, the largest aggregate amount outstanding under this loan was \$460,688. The residence was sold and the loan and interest were repaid in December 2002.

We paid GreatPlays LLC \$71,000 for consulting services rendered during fiscal year 2002. GreatPlays LLC is a business owned and operated by Renee Gellatly, daughter of David L. Gellatly, who served as our Chairman, President and Chief Executive Officer until May 2002, and was a member of our Board of Directors until he resigned in November 2004.

### 10. Commitments and Contingencies

#### *Legal Proceedings*

From time to time we have received correspondence from vendors, distributors, customers or end-users of our products regarding disputes with respect to contract rights, product performance or other matters that occur in the ordinary course of business. Some of these disputes may involve us in costly litigation or other actions, the outcome of which cannot be determined in advance and may adversely affect our business. The defense of lawsuits or other actions could divert our management's attention away from running our business. In addition, negative developments with respect to litigation could cause the price of our common stock to decline significantly.

#### *Lease Commitments*

We have various software and equipment operating leases, and facility leases. Our facility rental expenses in the years ended December 31, 2004, 2003 and 2002 totaled approximately \$218,000, \$245,000 and

# MICRO LINEAR CORPORATION

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

\$247,000, respectively. Future minimum lease payments for software and equipment operating leases and facility leases are as follows (in thousands):

<u>Fiscal Year</u>	
2005 .....	\$1,053
2006 .....	394
Thereafter .....	—
Total minimum lease payments .....	<u>\$1,447</u>

### Purchase Commitments

Our manufacturing relationships with foundries allow for the cancellation of all outstanding purchase orders, but require repayment of all expenses to date. As of December 31, 2004, foundries had incurred approximately \$502,000 of manufacturing expenses on our outstanding purchase orders.

### 11. Selected Quarterly Financial Data (unaudited)

	<u>Quarters Ended in Fiscal Year 2004</u>			
	<u>March 31,</u> <u>2004</u>	<u>June 30,</u> <u>2004</u>	<u>September 30,</u> <u>2004</u>	<u>December 31,</u> <u>2004</u>
	(Amounts in thousands, except earnings per share)			
Net revenue .....	\$ 3,840	\$6,508	\$5,875	\$ 4,414
Gross margin .....	\$ 1,747	\$3,825	\$3,410	\$ 2,553
Net income (loss) .....	\$(2,720)	\$(817)	\$ 607	\$(1,136)
Basic earnings (loss) per share .....	\$ (0.22)	\$(0.07)	\$ .05	\$ (0.09)
Diluted earnings (loss) per share .....	\$ (0.22)	\$(0.07)	\$ .04	\$ (0.09)

	<u>Quarters Ended in Fiscal Year 2003</u>			
	<u>March 31,</u> <u>2003</u>	<u>June 30,</u> <u>2003</u>	<u>September 30,</u> <u>2003</u>	<u>December 31,</u> <u>2003</u>
	(Amounts in thousands, except earnings per share)			
Net revenue .....	\$ 4,692	\$ 6,342	\$ 5,818	\$ 3,845
Gross margin .....	\$ 2,488	\$ 2,538	\$ 2,408	\$ 2,007
Net loss .....	\$(2,647)	\$(3,302)	\$(2,484)	\$(1,974)
Net loss per share, basic and diluted .....	\$ (0.22)	\$ (0.27)	\$ (0.20)	\$ (0.16)

### SCHEDULE II — VALUATION AND QUALIFYING ACCOUNTS

	<u>For the Years Ended</u> <u>December 31,</u>		
	<u>2004</u>	<u>2003</u>	<u>2002</u>
	(In thousands)		
<b>Allowance for doubtful accounts — accounts receivable:</b>			
Balance, beginning of period .....	\$ 30	\$ 58	\$125
Additions to allowance .....	109	2	(17)
Deductions, net of recoveries .....	—	(30)	(50)
Balance, end of period .....	<u>\$139</u>	<u>\$ 30</u>	<u>\$ 58</u>



**Item 9. *Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

Not Applicable.

**Item 9A. *Controls and Procedures***

(a) *Evaluation of disclosure controls and procedures.* We maintain “disclosure controls and procedures,” as such term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934 (the “Exchange Act”), that are designed to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in Securities and Exchange Commission rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating our disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated, can provide only reasonable, not absolute, assurance that the objectives of the disclosure controls and procedures are met. Our disclosure controls and procedures have been designed to meet, and management believes they meet, reasonable assurance standards. Additionally, in designing disclosure controls and procedures, our management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions.

Based on their evaluation as of the end of the period covered by this Annual Report on Form 10-K, our Chief Executive Officer and Chief Financial Officer have concluded that, subject to the limitations noted above, our disclosure controls and procedures were effective to ensure that material information relating to us, including our consolidated subsidiaries, is made known to them by others within those entities, particularly during the period in which this Annual Report on Form 10-K was being prepared.

(b) *Changes in internal control over financial reporting.* There was no change in our internal control over financial reporting (as defined in Rule 13a-15(f) under the Exchange Act) identified in connection with management’s evaluation during our last fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

**Item 9B. *Other Information***

Not applicable.

### PART III

#### Item 10. *Directors and Executive Officers of the Registrant*

(a) The executive officers of the Company, and their ages as of December 31, 2004, are as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Principal Business Experience for the Past Five Years</u>
Timothy A. Richardson . . .	47	President and Chief Executive Officer	Mr. Richardson was appointed President and Chief Executive Officer of the Company in May 2002 and has served as a director of the Company since March 2000. From August 2000 to May 2002, Mr. Richardson served as Executive Vice President of Business Development of Bandwidth9, a manufacturer of optical components for the telecommunications market. From 1996 to August 2000, Mr. Richardson was the President of VeriFiber Technologies, an optical component and systems manufacturer which he founded. VeriFiber was acquired in August 2000 by Bandwidth9.
Brent Dix . . . . .	42	Vice President, Engineering	Mr. Dix joined the Company in September 2001 as Vice President of the Salt Lake City Design Center. In July 2002, he was named Vice President of Engineering. From March 1996 until September 2001, Mr. Dix served as Senior Director of Engineering of Harmonic Inc., a provider of interactive video, voice and data services for the telecommunications industry.
Peter Manno . . . . .	62	Vice President, Worldwide Sales	Mr. Manno joined the Company in June 2001 as Vice President of Marketing. In December 2002, he became Vice President of Worldwide Sales. From November 2000 to June 2001, Mr. Manno served as Vice President of Sales of Xemod, Inc., a provider of radio frequency amplifier modules for the wireless communication market. From July of 1999 until August of 2000, he served as President and Chief Executive Officer of American Microwave Technologies, Inc., a manufacturer of custom radio frequency and microwave power amplifiers for the scientific and medical industries.
David Neubauer . . . . .	62	Vice President, Strategic Accounts	Mr. Neubauer joined the Company in May 1999 as Vice President of Sales. In December 2002, he became Vice President of Strategic Accounts.
Michael Schradle . . . . .	59	Vice President, Finance and Operations and Chief Financial Officer	Mr. Schradle joined the Company in July 2000 as Vice President, Finance and Chief Financial Officer. In October 2002, he was also named Vice President, Operations. From January 2000 to July 2000, Mr. Schradle was a consultant for David Powell, Inc.'s Financial Services Division, which provides interim chief financial officer support to emerging companies. From January 1998 to January 2000, Mr. Schradle was Chief Financial Officer of Arithmos, Inc., a semiconductor company.

(b) The Board of Directors of the Company, and their ages as of December 31, 2004, are as follows:

<u>Name</u>	<u>Director Since</u>	<u>Age</u>	<u>Principal Business Experience for the Past Five Years</u>
Timothy R. Richardson .....	2000	47	Mr. Richardson was appointed President and Chief Executive Officer of the Company in May 2002, and has served as a director of the Company since March 2000. From August 2000 to May 2002, Mr. Richardson served as Executive Vice President of Business Development of Bandwidth9, a manufacturer of optical components for the telecommunications market. From 1996 to August 2000, Mr. Richardson was the President of VeriFiber Technologies, an optical component and systems manufacturer, which he founded. VeriFiber was acquired in August 2000 by Bandwidth9.
Laura Perrone(1)(3) .....	2004	47	Since September 2003, Ms. Perrone has been Vice President and Chief Financial Officer of Omneon Video Networks, a provider of content storage technologies for the production and broadcast distribution of digital media. From January until March of 2002, Ms. Perrone was Consultant to the Chief Executive Officer of Icarian Inc., a workforce management software and service provider. Icarian was acquired by Workstream Inc. in July 2002. From April 1999 through December 2001, Ms. Perrone was Vice President and Chief Financial Officer of Icarian Inc.
William B. Pohlman(1)(2) .....	1999	62	Since January 2003, Mr. Pohlman has been Chairman of the Board of Primarion, Inc., a semiconductor company. From December 1999 to January 2003, he served as Chief Technology Officer and Chairman of the Board of Primarion.
Joseph D. Rizzi(1)(2) .....	1997	62	Since 1998, Mr. Rizzi has been a private investor. Mr. Rizzi also served until December 2004 as a member of the board of directors of Veritas Software Corporation, a developer of storage management software.
A. Thampy Thomas(1)(2)(3) .....	2002	58	Thampy Thomas is a private investor. From June 2002 through August 2004, he served as the Chairman and CEO of PostX Corporation, a provider of enterprise software for secure electronic delivery of sensitive business information. From 1998 until June 2002, Dr. Thomas was a private investor.

<u>Name</u>	<u>Director Since</u>	<u>Age</u>	<u>Principal Business Experience for the Past Five Years</u>
John Zucker(3) .....	2005	61	Since November 2001, Mr. Zucker has been a private investor. From November 2000 until November 2001, he was the President and CEO of RealChip Communications, a provider of semiconductor integrated circuits for communications applications. From September 1998 to January 2000, he was Vice President of Micron Technology, a manufacturer of DRAMs, Flash, memory and other semiconductor components to the computing, networking and communications industries.

- (1) Member of Audit Committee.
- (2) Member of Compensation Committee.
- (3) Member of the Nominating and Corporate Governance Committee

There are no family relationships between any directors or executive officers of the Company.

(c) Section 16(a) Beneficial Ownership Reporting Compliance — Under the securities laws of the United States, our directors, executive officers and beneficial owners of more than 10% of our Common Stock are required to report their initial ownership of our Common Stock or other equity securities and any subsequent changes in that ownership to the Securities and Exchange Commission. Specific due dates for these reports have been established and we are required to identify in this report those persons who failed to timely file these reports. To the company's knowledge, based solely on its review of the copies of such reports received by it, or written representations from reporting persons, we believe that during the fiscal year ended December 31, 2004, our officers, directors and holders of more than 10% of our Common Stock complied with all Section 16(a) filing requirements applicable to them during fiscal year 2004, except for the following: 1) Mr. William Pohlman was late in reporting five market transactions which were subsequently reported on three Form 4s; and 2) Ms. Laura Perrone was late in filing her initial Form 3, which was subsequently filed and was late in reporting one option grant which was subsequently reported on a Form 4.

(d) Code of Ethics — The Company has adopted a code of ethics that applies to all of the Company's employees, including the Company's principal executive officer, principal financial officer, controller and persons performing similar functions. This code of ethics, called a Code of Ethics and Business Conduct, is available on the Company's Web site ([www.microlinear.com](http://www.microlinear.com)) on the investor relations webpage. Future amendments or waivers relating to the Code of Conduct will be disclosed on such webpage within five (5) business days following the date of such amendment or waiver.

(e) Audit Committee Financial Expert — Laura Perrone was elected to Micro Linear's Board of Directors on March 18, 2004 and was also appointed to serve as a member of the Audit Committee. The Board of Directors of Micro Linear Corporation has determined that Laura Perrone is an audit committee financial expert as defined by Item 401(h) of Regulation S-K of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and is independent within the meaning of Item 7(d)(3)(iv) of Schedule 14A of the Exchange Act.

(f) The Company's Board of Directors has a standing Audit Committee established in accordance with section 3(a)(58) of the Exchange Act. Mr. Joseph Rizzi, Mr. William Pohlman, Mr. A. Thampy Thomas and Ms. Laura Perrone are currently the members of the Audit Committee. All of such members meet the independence standards established by the Nasdaq Stock Market for serving on an Audit Committee.

# Item 11. Executive Compensation

The following table summarizes all compensation paid during 2004, 2003, and 2002 to our Chief Executive Officer and each of our other four most highly compensated executive officers as of the end of fiscal 2004 whose salary and bonus for services rendered in fiscal 2004 exceeded \$100,000 (the "Named Executive Officers").

## Summary Compensation Table

Name and Principal Position	Year	Annual Compensation			Long-Term Compensation	All Other Compensation(3)
		Salary	Bonus(1)	Other Annual Compensation(2)	Securities Underlying Options (#)	
Timothy A. Richardson(4) President and Chief Executive Officer	2004	\$317,308	\$ —	\$1,400	—	\$ 3,213
	2003	300,000	118,281	512	—	2,183
	2002	167,308	42,788	—	510,000	139,142
Brent D. Dix(5) Vice President, Engineering	2004	207,692	—	425	—	4,001
	2003	200,000	—	461	70,000	4,221
	2002	200,000	50,667	34,399	—	16,009
Peter L. Manno(6) Vice President, Worldwide Sales	2004	227,404	—	3,080	—	7,477
	2003	215,000	—	3,340	45,000	9,612
	2002	215,000	26,000	1,290	—	9,612
David C. Neubauer(7) Vice President, Strategic Accounts	2004	211,543	—	3,080	—	11,217
	2003	200,004	—	3,340	45,000	9,974
	2002	200,003	23,333	1,505	—	10,645
Michael W. Schradle(8) Chief Financial Officer, Vice President, Finance & Operations	2004	215,389	—	2,007	—	9,442
	2003	200,004	—	2,176	70,000	10,327
	2002	199,744	16,667	2,580	—	10,327

(1) Amounts paid as bonuses for services rendered are reported for the year in which they were earned, even if they were paid in the following fiscal year.

(2) Amounts in this column represent reimbursement during the fiscal year for the payment of taxes.

(3) The amounts in this column are described below:

Name	Year	Exec Life Insurance Premiums	Long-Term Disability Premiums	Company 401(k) Contributions	Living Expenses, Relocation	Total, All Other Compensation
Timothy A. Richardson ..	2004	\$ 830	\$2,383	\$ —	\$ —	\$ 3,213
	2003	1,800	2,383	—	(2,000)	2,183
	2002	525	—	—	138,617	139,142
Brent D. Dix .....	2004	300	1,541	2,160	—	4,001
	2003	600	1,541	2,080	—	4,221
	2002	600	1,541	1,920	11,948	16,009
Peter L. Manno .....	2004	1,745	3,572	2,160	—	7,477
	2003	3,960	3,572	2,080	—	9,612
	2002	3,960	3,572	2,080	—	9,612
David C. Neubauer .....	2004	3,830	5,227	2,160	—	11,217
	2003	3,960	3,934	2,080	—	9,974
	2002	3,960	4,605	2,080	—	10,645
Michael W. Schradle .....	2004	1,855	5,667	1,920	—	9,442
	2003	2,580	5,667	2,080	—	10,327
	2002	2,580	5,667	2,080	—	10,327

(4) Mr. Richardson became President and Chief Executive Officer in May 2002.

- (5) Mr. Dix became Vice President, Engineering in July 2002, after joining us as Vice President of the Salt Lake City Design Center in September 2001.
- (6) Mr. Manno became Vice President of Marketing in June 2001. In December 2002, he became Vice President of Worldwide Sales.
- (7) Mr. Neubauer became Vice President of Sales in May 1999, and Vice President, Strategic Accounts in December 2002.
- (8) Mr. Schradle became Chief Financial Officer and Vice President of Finance in July 2000. In October 2002, he assumed the additional role of Vice President of Operations.

### Option Information

There were no stock options granted to the Named Executive Officers during the fiscal year ended December 31, 2004.

### Aggregated Option Exercises in Last Fiscal Year and Fiscal Year-End Option Values

The following table shows information about option exercises during 2004 and the value of unexercised options at the end of 2004 for each of the Named Executive Officers. Value at fiscal year end is measured as the difference between the exercise price and the fair market value on December 31, 2004 (\$4.94 per share).

Name	Shares Acquired on Exercise (#)	Value Realized (\$)	Number of Securities Underlying Unexercised Options at Fiscal Year End (#)		Value of Unexercised In-The-Money Options at Fiscal Year End (\$)	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Timothy A. Richardson .....	—	\$—	392,707	177,293	\$481,107	\$250,093
Brent D. Dix .....	—	—	146,666	73,334	332,043	151,257
Peter L. Manno .....	—	—	100,625	44,375	254,100	89,100
David C. Neubauer ..	—	—	212,082	32,918	268,979	57,471
Michael W. Schradle	—	—	173,748	46,252	111,235	86,815

### Compensation of Directors

Directors do not receive cash compensation for serving on the Board of Directors. Non-employee directors participate in our 1994 Director Option Plan (the "Director Plan"). Under an amendment to the Director Plan approved by our stockholders in June 2000, each non-employee director automatically receives a nonstatutory option to purchase 50,000 shares of Common Stock on the date upon which he or she becomes a director (the "Initial Grant"). The initial grant vests at the rate of twenty-five percent (25%) of the shares subject to the option on each of the first and second anniversaries of the date of grant and  $\frac{1}{48}$  of the shares subject to the option each month thereafter. Laura Perrone received an option grant of 50,000 shares from the Director Plan on March 18, 2004, the date of her election to the Board of Directors.

In addition, under the Director Plan, each non-employee director automatically received a nonstatutory option to purchase 10,000 shares of Common Stock upon re-election to the Board of Directors at each annual meeting of stockholders, provided the director had been a member of the Board of Directors for at least six months upon the date of re-election. The Director Plan expired before the 2004 Annual Meeting of Stockholders and, as a result, no re-election grants were made pursuant to the Director Plan in 2004.

On October 21, 2004, the Board of Directors granted options to non-employee directors from the 1998 Nonstatutory Stock Option Plan as follows: a) 10,000 shares to each director who had been a member of the Board of Directors for at least six months as of the date of re-election to the Board on August 4, 2004, and b) 10,000 shares to each member of the Board's Audit Committee in consideration for the committee member's services to the Board. These shares have an exercise price equal to the fair market value of our Common Stock on the date of grant and vest over a twelve-month period, with vesting commencing on

August 4, 2004, the date of our 2004 Annual Meeting of Stockholders. Shares vest and become exercisable only if the optionee is, as of the vesting date, still a member of the Board of Directors, or the Audit committee.

In October 2004, Mr. A. Thampy Thomas was appointed Chairman of the Board. For his services as Chairman, Mr. Thomas is paid \$75,000 a year, paid monthly, and receives an additional option grant of 20,000 shares. These shares have an exercise price equal to the fair market value of our Common Stock on the date of grant and vest over a twelve-month period from the date of grant.

#### **Employment Contracts and Termination of Employment and Change of Control Arrangements**

In May 2002, Timothy Richardson was elected as President and Chief Executive Officer of the Company. Pursuant to the terms of his employment agreement, Mr. Richardson's base salary is \$300,000 per year. He will have the opportunity to earn a bonus of up to \$100,000, payment of which will be determined by the Compensation Committee of the Board of Directors, based upon successful completion of certain performance objectives. In addition, Mr. Richardson received an option to purchase 500,000 shares of Common Stock at an exercise price equal to the fair market value of the Common Stock on the grant date. The option has a one-year cliff after which 25% of the shares subject to the option become exercisable, and thereafter the remaining shares become exercisable in equal monthly installments over the next three years. In the event of a change of control of the Company, 100% of the shares subject to the option shall become immediately exercisable. In addition, Mr. Richardson's employment agreement provides that we will maintain a life insurance policy and long-term disability policy during his tenure as Chief Executive Officer. Mr. Richardson's employment agreement also provides that we would cover Mr. Richardson's relocation costs and provide him with a short-term bridge loan pending the sale of his home in Georgia. Under the terms of his agreement, if Mr. Richardson is terminated by the Company "without cause" or resigns for "good reason" (as those terms are defined in the agreement), we will continue his base salary and group health and life insurance benefits for 12 months.

In the event of a "change of control," 50% of the unvested shares subject to options held by each Named Executive Officer other than the Chief Executive Officer immediately vest and become exercisable. For this purpose, "change of control" is defined as an acquisition of the Company or the sale of all or substantially all of our assets.

Michael Schradle, Chief Financial Officer and Vice President of Finance and Operations, has an agreement with us providing for severance equal to six months of base salary and group health benefits in the event his employment is terminated by us "without cause." In addition to the 50% acceleration of his stock options in the event of a change of control, if within twelve months of a change of control Mr. Schradle is terminated as an employee "without cause", or is "constructively terminated", as those terms are defined in his stock option agreement, all remaining unvested shares subject to his options vest and become exercisable.

David Neubauer, Vice President of Strategic Accounts, has an agreement with us providing for severance equal to six months of base salary and six months of continuing medical benefits in the event that his employment is terminated by us "without cause" (as defined in the agreement).

Peter Manno, Vice President of Marketing, has an agreement with us providing for severance equal to six months of base salary, and acceleration of the vesting of 50% of all unvested stock options, in the event Mr. Manno's employment is terminated by us "without cause" (as defined in the agreement).

Brent Dix, Vice President of Engineering, has an agreement with us providing for severance equal to six months of base salary in the event his employment is terminated by us "without cause" (as defined in the agreement).

#### **Compensation Committee Interlocks and Insider Participation**

During fiscal 2004 the Compensation Committee of the Board of Directors consisted of Mr. Rizzi and Mr. Pohlman, neither of whom is an officer or employee of Micro Linear. No member of the Compensation Committee or executive officer of Micro Linear has a relationship that would constitute an interlocking relationship with executive officers or directors of another entity.

**Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

**Security Ownership of Certain Beneficial Owners and Management**

The following table sets forth the beneficial ownership of our Common Stock as of March 1, 2005 by: (i) each of the holders of more than five percent of our outstanding Common Stock, (ii) each member of the Board of Directors, (iii) each of the Named Executive Officers, and (iv) all current directors and executive officers as a group. Ownership information is based solely on information furnished by the respective individuals and entities as the case may be. Unless otherwise indicated, the address for the following is c/o Micro Linear Corporation, 2050 Concourse Drive, San Jose, California 95131.

<u>Name of Beneficial Owner</u>	<u>Shares Owned</u>	<u>Exercisable within 60 Days of 3/15/2004</u>	<u>Total Shares Beneficially Owned (1)</u>	<u>Percent of Common Stock Outstanding (2)</u>
<i>5% Stockholders</i>				
Dimensional Fund Advisors, Inc.(3) .... 1299 Ocean Avenue, 11th Fl. Santa Monica, CA 90401	733,816	—	733,816	5.89%
Andrew E. Gold(4) ..... 10835 Lockland Road Potomac, MD 20854	673,401	—	674,301	5.40
AIGH Investments Partners, LLC(5) ... 6006 Berkeley Ave. Baltimore, MD 21209	649,455	—	649,455	5.21
<i>Executive Officers and Directors</i>				
Timothy A. Richardson .....	—	434,583	434,583	3.37
Michael W. Schradle .....	3,000	180,624	183,624	1.45
David C. Neubauer .....	2,750	216,875	219,625	1.73
Brent D. Dix .....	1,500	165,000	166,500	1.32
Peter L. Manno .....	1,750	112,708	114,458	*
Laura Perrone .....	—	22,917	22,917	*
William B. Pohlman .....	5,760	123,334	129,094	1.03
Joseph D. Rizzi .....	277,000	142,334	419,334	3.33
A. Thampy Thomas .....	—	68,751	68,751	*
John Zucker(6) .....	—	—	—	*
All officers and directors as a group (10 persons) .....	291,760	1,467,126	1,758,886	12.63%

\* Less than 1%.

- (1) To our knowledge, the persons named in the table have sole voting and investment power with respect to all shares of Common Stock shown as beneficially owned by them, subject to community property laws where applicable and the information contained in the notes to this table. Beneficial ownership is determined in accordance with the rules and regulations of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person that are currently exercisable or exercisable within 60 days of March 15, 2004 are deemed outstanding. These shares, however, are not deemed outstanding for the purposes of computing ownership of any other person.
- (2) Applicable percentage ownership is based on 12,461,973 shares of common stock outstanding as of March 1, 2005.
- (3) Based solely on Schedule 13G/A filed with the Securities and Exchange Commission on February 9, 2005. Dimensional, an investment advisor registered under Section 203 of the Investment Advisors Act of



1940, furnishes investment advice to four investment companies registered under the Investment Company Act of 1940, and serves as investment manager to certain other commingled group trusts and separate accounts. These investment companies, trusts and accounts are the "Funds". In its role as investment advisor or manager, Dimensional possesses voting and/or investment power over 733,816 shares of our Common Stock owned by the Funds, and may be deemed to be the beneficial owner of these shares. However, all securities reported in this schedule are owned by the Funds. Dimensional disclaims beneficial ownership of these shares.

- (4) Based solely on Schedule 13D filed with the Securities and Exchange Commission on November 11, 2004.
- (5) Based solely on Schedule 13G filed with the Securities and Exchange Commission on December 16, 2004.
- (6) Mr. Zucker was elected to the Board of Directors on January 25, 2005.

### Securities Authorized for Issuance Under Equity Compensation Plans

The following table sets forth information regarding our equity compensation plans as of December 31, 2004:

#### Equity Compensation Plan Information

<u>Plan Category</u>	<u>Number of Securities to be Issued upon Exercise of Outstanding Options, Warrants and Rights(a)</u>	<u>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights(b)</u>	<u>Number of Securities Remaining Available for Future Issuance under Equity Compensation Plans (Excluding Securities Reflected in Column(a))</u>
Equity compensation plans approved by security holders(1) .....	2,976,824	\$4.21	817,458(2)
Equity compensation plans not approved by security holders(3) ..	<u>976,100</u>	<u>3.79</u>	<u>777,125</u>
Total .....	<u>3,952,924</u>	<u>\$4.11</u>	<u>1,594,583</u>

- (1) Includes our 1991 Stock Option Plan, 1994 Director Option Plan and 1998 Employee Stock Purchase Plan. The 1994 Director Option Plan expired in August 2004. Stock options and restricted stock may be awarded under the 1991 Stock Option Plan.
- (2) The number of shares reserved for issuance under the 1998 Employee Stock Purchase Plan is subject to an annual increase equal to the lesser of (i) the number of shares of Common Stock repurchased by Micro Linear during the prior year, (ii) the number of shares of Common Stock issued under the Plan in the prior year, or (iii) a lesser amount determined by the Board.
- (3) Includes 1998 Nonstatutory Stock Option Plan. A summary of the material features of the 1998 Nonstatutory Stock Option Plan can be found in Item 8 of the Consolidated Financial Statement under Note 6, Stockholders' Equity — Stock Option Plans.

### Item 13. *Certain Relationships and Related Transactions*

During the fiscal year ended December 31, 2004, there was no transaction or series of transactions between Micro Linear and any of our directors, executive officers, holders of more than 5% of our Common Stock or any member of the immediate family of any of the foregoing persons that are required to be disclosed pursuant to Item 404 of Regulation S-K promulgated under the Securities Exchange Act of 1934, as amended, other than the transactions described above under Item 11, Executive Compensation, above.

#### **Item 14. *Principal Accountant Fees and Services***

In addition to retaining PricewaterhouseCoopers LLP to audit the consolidated financial statements for fiscal 2004, the Company and its subsidiaries retained PricewaterhouseCoopers LLP to provide other related services in fiscal 2004. The aggregate fees billed for professional services by PricewaterhouseCoopers LLP in fiscal 2004 and fiscal 2003 for these various services were:

##### ***Audit Fees***

The aggregate audit fees billed or to be billed by PricewaterhouseCoopers LLP for each of the last two fiscal years for professional services rendered for the audit of our annual financial statements, review of financial statements included in our quarterly reports on Form 10-Q and services that were provided in connection with statutory and regulatory filings or engagements were approximately \$216,000 for fiscal 2004 and \$170,000 for fiscal 2003.

##### ***Audit-Related Fees***

There were no audit-related fees incurred during the years ended December 31, 2004 or 2003.

##### ***Tax Fees***

The aggregate fees billed or to be billed by PricewaterhouseCoopers LLP in each of the last two fiscal years for professional services related to tax advice, tax compliance, tax planning and foreign tax matters were \$22,500 for fiscal 2004 and \$48,000 for fiscal 2003. The nature of these services comprising these fees included preparation of federal, state and foreign income tax returns and advice provided regarding state and local income and sales taxes.

##### ***All Other Fees***

We did not engage PricewaterhouseCoopers LLP or pay or incur fees in the last two fiscal years for services other than those reported in the categories above.

##### ***Policy on Pre-Approval of Retention of Independent Auditors***

The Audit Committee of the Board of Directors has implemented pre-approval policies and procedures related to the provision of audit and non-audit services. Under these procedures, the Audit Committee pre-approves both the type of services to be provided by an outside audit firm and the estimated fees related to these services. During the approval process, the Audit Committee considers the impact of the types of services and the related fees on the independence of the auditor. The services and fees must be deemed compatible with the maintenance of the auditor's independence, including compliance with Securities and Exchange Commission rules and regulations.

The engagement of PricewaterhouseCoopers LLP for non-audit accounting and tax services performed for us is limited to those circumstances where these services are considered integral to the audit services that PricewaterhouseCoopers LLP provides or in which there is another compelling rationale for using its services.

## PART IV

### Item 15. Exhibits and Financial Statement Schedules

(a) 1. *Financial Statements.* The following documents are filed as part of this Annual Report:

	<u>Page</u>
Financial Statements:	
Report of PricewaterhouseCoopers LLP, Independent Auditors .....	34
Consolidated Balance Sheets at December 31, 2004 and 2003 .....	35
Consolidated Statements of Operations for the years ended December 31, 2004, 2003 and 2002 ..	36
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2004, 2003 and 2002 .....	37
Consolidated Statements of Cash Flows for the years ended December 31, 2004, 2003 and 2002 ..	38
Notes to Consolidated Financial Statements .....	39
Financial Statement Schedule:	
Schedule II — Valuation and Qualifying Accounts for the years ended December 31, 2004, 2003 and 2002 .....	54

2. *Financial Statement Schedules.* See Index under Item 8.

3. *Exhibits:*

<u>Exhibit Number</u>	<u>Description of Document</u>
3(i)(a)	Restated Certificate of Incorporation of Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 1994).
3(i)(b)	Certificate of Designation of Series A Participating Preferred Stock (incorporated by reference to Exhibit 3 to the Registrant's Registration Statement on Form 8-A filed August 17, 1998).
3(ii)(a)	Bylaws of Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1 (file no. 333-83546), as amended, filed on September 1, 1994).
3(ii)(b)	Certificate of Amendment to the Bylaws of the Registrant dated August 6, 2003 (incorporated by reference to Exhibit 3(ii)(a) to the Registrant's Annual Report on Form 10-K for the fiscal year ended December 31, 2003).
4.1	Form of Common Stock Certificate (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-1 (file no. 333-83546), as amended, filed on September 1, 1994).
4.2	Preferred Shares Rights Agreement dated as of August 13, 1998 between the Registrant and American Stock Transfer & Trust Company, including as Exhibit B the Rights Certificate and as Exhibit C the Summary of Rights (incorporated by reference to Exhibit to the Registrant's Registration Statement on Form 8-A filed August 17, 1998).
10.1	Form of Indemnification Agreement (incorporated by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-1 (file no. 333-83546), as amended, filed on September 1, 1994).
10.2*	1991 Stock Option Plan and form of Stock Option Agreement (incorporated by reference to Exhibit 4.2 to the Registrant's Registration Statement on Form S-8 (file no. 333-53003) filed on May 19, 1998).
10.3*	1994 Director Stock Option Plan and form of Stock Option Agreement (incorporated by reference to Exhibit 10.5 to the Registrant's Registration Statement on Form S-1 (file no. 333-83546), as amended, filed on September 1, 1994).

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10.4	Deed of Trust and Security Agreement of registrant in principal amount of \$3.0 million dated October 1, 1999 (incorporated by reference to Exhibit 10.4 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
10.5*	1998 Nonstatutory Stock Option Plan (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (file no. 333-53003) filed on May 19, 1998).
10.6*	1998 Employee Stock Purchase Plan and Form of Subscription Agreement (incorporated by reference to Exhibit 4.1 to the Registrant's Registration Statement on Form S-8 (file no. 333-67769) filed on November 23, 1998).
10.7	International Distributor Agreement dated January 1, 2002 between the Registrant and Teksel Corporation, Ltd. (incorporated by reference to Exhibit 10.1 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.8	International Sales Representative Agreement dated January 1, 2002 between the Registrant and Teksel Corporation Ltd. (incorporated by reference to Exhibit 10.2 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.9*	Employment Agreement dated May 27, 2002 between the Registrant and Timothy A. Richardson (incorporated by reference to Exhibit 10.4 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002).
10.10	Purchase and Sale Agreement dated April 15, 2004 by and between the Registrant and Willow Glen Investments, LLC, as amended (incorporated by reference to Exhibit 2.1 to the Registrant's Current Report on Form 8-K filed on August 11, 2004).
10.11*	Form of executive officer amended offer letter (incorporated by reference to Exhibit 10.10 to the Registrant's Annual Report on Form 10-K for the year ended December 31, 2003).
23.1	Consent of PricewaterhouseCoopers LLP, Independent Registered Public Accounting Firm.
24.1	Power of Attorney (See page 67 of this Form 10-K.)
31.1	Rule 13a-14(a) Certification by the Chief Executive Officer.
31.2	Rule 13a-14(a) Certification by the Chief Financial Officer.
32.1(1)	Section 1350 Certification by the Chief Executive Officer.
32.2(1)	Section 1350 Certification by the Chief Financial Officer.

\* Management contract or compensation plan or arrangement required to be filed as an exhibit to this report on Form 10-K pursuant to Item 14(c) of this report.

- (1) The material contained in this Exhibit 32.1 is not deemed "filed" with the SEC and is not to be incorporated by reference into any filing of the Company under the Securities Act of 1933 or the Securities Exchange Act of 1934, whether made before or after the date hereof and irrespective of any general incorporation language contained in such filing, except to the extent that the registrant specifically incorporates it by reference.

(b) *Exhibits*

The exhibits set forth in 3 above are filed or incorporated by reference as part of this report on Form 10-K.

(c) *Financial Statement Schedules*

The Valuation and Qualifying Accounts Schedule in 2 above is incorporated herein by reference.

## SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-K to be signed on its behalf by the undersigned, thereunto duly authorized.

### MICRO LINEAR CORPORATION

Date: April 4, 2005

By: /s/ TIMOTHY A. RICHARDSON

Timothy A. Richardson  
*Chief Executive Officer and President*

## POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below hereby constitutes and appoints Timothy A. Richardson as his or her attorney-in-fact, with full power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Report on Form 10-K, and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming our signatures as they may be signed by our said attorney to any and all amendments to said Report.

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed by the following persons in the capacities and on the dates indicated:

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ TIMOTHY A. RICHARDSON</u> Timothy A. Richardson	Chief Executive Officer, President (Principal Executive Officer) and Director	April 4, 2005
<u>/s/ MICHAEL W. SCHRADLE</u> Michael W. Schradle	Chief Financial Officer (Principal Financial and Accounting Officer)	April 4, 2005
<u>/s/ JOSEPH D. RIZZI</u> Joseph D. Rizzi	Director	April 4, 2005
<u>/s/ WILLIAM B. POHLMAN</u> William B. Pohlman	Director	April 4, 2005
<u>/s/ A. THAMPY THOMAS</u> A. Thampy Thomas	Chairman of the Board	April 4, 2005
<u>/s/ LAURA PERRONE</u> Laura Perrone	Director	April 4, 2005
<u>/s/ JOHN ZUCKER</u> John Zucker	Director	April 4, 2005

## INDEX TO EXHIBITS

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**Exhibit  
Number**

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## DIGITAL WIRELESS TECHNOLOGIES

### BOARD OF DIRECTORS AND OFFICERS

#### BOARD OF DIRECTORS

**Timothy A. Richardson**  
President and Chief Executive Officer  
Micro Linear Corporation

**Laura Perrone**  
Vice President of Finance and  
Chief Financial Officer  
Omneon Video Networks

**Joseph D. Rizzi**  
Private Investor

**A. Thampy Thomas**  
Private Investor

**John Zucker**  
Chairman  
Private Investor

#### CORPORATE OFFICERS

**Timothy A. Richardson**  
President and Chief Executive Officer

**Brent D. Dix**  
Vice President of Engineering

**Peter L. Manno**  
Vice President of Business Development

**Steven E. Moore**  
Vice President of Worldwide Sales and Applications

**Michael W. Schradle**  
Vice President of Finance and Operations and  
Chief Financial Officer

### CORPORATE INFORMATION

#### TRANSFER AGENT AND REGISTER

**American Stock Transfer and Trust Company**  
59 Maiden Lane  
New York, NY 10038  
(212) 936-5100

#### LEGAL COUNSEL

**Pillsbury Winthrop Shaw Pittman, LLP**  
2475 Hanover Street  
Palo Alto, CA 94304-1115  
(650) 233-4500

#### FORM 10-K

Additional copies of the company's form 10-K Annual Report as filed with the Securities and Exchange Commission may be obtained without charge by writing the Investor Relations Department at the corporate address. SEC filings are also available at the SEC website, [www.sec.gov](http://www.sec.gov).

#### ANNUAL MEETING

The Annual Meeting of Stockholders will be held at 10:00AM PDT on August 4, 2005.  
Micro Linear Corporation  
2050 Concourse Dr.  
San Jose, CA 95131

#### INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**PricewaterhouseCoopers LLP**  
10 Almaden Blvd. Suite 1600  
San Jose, CA 95113  
(408) 817-3700

#### STOCK LISTING

**NASDAQ:** National Market System  
Symbol: MLIN

#### MICRO LINEAR CORPORATION

2050 Concourse Dr.  
San Jose, CA 95131  
Tel: (408) 433-5200  
[www.microlinear.com](http://www.microlinear.com)

#### Safe Harbor Statement Under the Private Securities Litigation Reform Act of 1995

Certain of the statements contained herein that are not historical fact are forward-looking statements within the meaning of the Private Securities Litigation Reform Act, including, but not limited to, statements about market opportunity, anticipated features and benefits of our products and technology, our ability to be a dominant player in the growing 5.8GHz market, a leading provider in the PHS marketplace, and successfully compete in new markets. These statements may be identified by such terms as "anticipate," "believe," "may," "might," "expect," "will," "intend," "could," "can," or similar expressions intended to identify forward-looking statements. These forward-looking statements are subject to risks and uncertainties, which may cause actual results to differ materially from those expressed or implied by the forward-looking statements. These risks and uncertainties include, but are not limited to, the cyclical nature of the semiconductor industry, changes in the average selling prices of the Company's products, the level of product orders and the market acceptance of the Company's products, and those risks discussed in our Annual Report on Form 10-K, "Management's Discussion and Analysis of Financial Condition and Results of Operations – Factors That May Affect Future Operating Results."

# Micro Linear

MICRO LINEAR CORPORATION

100 CONGRESS DRIVE  
SAN JOSE, CA 95131

TEL: 415/551-5200

WWW.MICROLINEAR.COM